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THE GULF OF GUINEA AND U.S. STRATEGIC ENERGY POLICY

HEARING

BEFORE THE

SUBCOMMITTEE ON INTERNATIONAL ECONOMIC POLICY, EXPORT AND TRADE PROMOTION

OF THE

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THURSDAY, JULY 15, 2004

U.S. SENATE,
SUBCOMMITTEE ON INTERNATIONAL ECONOMIC POLICY, EXPORT AND TRADE PROMOTION,
COMMITTEE ON FOREIGN RELATIONS,
Washington, DC.

The subcommittee met, pursuant to notice, at 1:04 p.m. in room SD–419, Dirksen Senate Office Building, Hon. Chuck Hagel (chairman of the subcommittee), presiding.

Present: Senator Hagel.

OPENING STATEMENT OF SENATOR CHUCK HAGEL

Senator HAGEL. The committee will come to order. Good afternoon. Today's hearing is the fourth in a series this subcommittee has held to examine United States strategic energy policy. Previous hearings have examined U.S. energy security policy in Central Asia, Latin America, and the Middle East.

Energy security is vital to the United States economy. Economic growth depends upon stable, reliable sources of energy at reasonable prices. In the near term, U.S. energy independence is not a reality. Currently the United States imports almost 60 percent of its oil. This reliance on foreign oil will continue well into the 21st century.

The U.S. must have a comprehensive strategic energy policy that seeks to diversify our foreign sources of oil and natural gas while at the same time strengthening our relationships in these energy-producing regions. U.S. strategic energy policy must be linked to our overall foreign policy initiatives. Economic development, trade and investment and the stability and security of energy-producing regions are all interconnected.

The focus of today's hearing is on West Africa and the Gulf of Guinea. Today the U.S. imports 12 to 15 percent of its oil from West and Central Africa. This region will grow in strategic importance for U.S. energy security interests. The Gulf of Guinea has several strategic advantages for the United States in terms of geography, market access, conditions, and the quality of its crude oil. By 2020 the United States is expected to import almost 25 percent of its crude oil needs from this region.

As the Gulf of Guinea grows in strategic importance, it will require even greater attention by the U.S. and its allies. Nigeria, Angola, Equatorial Guinea, Sao Tome, Chad, and Cameroon are among the countries in the region with significant oil and natural gas stakes and will require an intensified focus by U.S. policymakers to ensure that our national security interests are met. This policy must seek to maintain reliable access to energy sources while working to create conditions that bring political and economic stability to the region.

Although possessing significant oil and natural gas reserves, West African nations continue to struggle with endemic poverty, corruption, and ethnic strife. Some of the conflict in the region is due to disputes surrounding the distribution of oil revenues. Nigeria, the largest oil producer in the region, with significant offshore reserves, endured 16 years of military rule under a democratic government—until a democratic government came to power in 1999. Angola, the region's second largest oil producer, has only recently begun to recover from 28 years of civil war.

The countries in the Gulf of Guinea region must move more aggressively to address corruption, rule of law, and good governance to ensure long-term political and economic stability. U.S. programs, such as the African Growth and Opportunity Act, as well as the Millennium Challenge Account, are two important new initiatives that will help improve economic and political conditions in Africa.

Today we will examine the current conditions in the Gulf of Guinea and how U.S. foreign policy and energy policy is responding to those conditions. Does the United States have a comprehensive strategic policy for West Africa? Is energy security being adequate addressed in our foreign policy objectives? Are we allocating the necessary resources to deal with regional stability and security issues in the Gulf of Guinea? These are just some of the questions we seek to answer today.

The witnesses for our first panel are: Deputy Assistant Secretary of State Paul Simons and Deputy Assistant Secretary of Energy John Brodman. On our second panel we will hear from David Goldwyn, founder of Goldwyn International Strategies, and Mr. Stephen Morrison, Director for Africa for the Center for Strategic and International Studies.

Gentlemen, we welcome you. We are grateful for your time, both panels. We are privileged to have four individuals who know a great deal about the area of the world that we are going to delve into this afternoon. We very much appreciate your time and your investment of your efforts in putting together your testimony and the opportunity to exchange some thoughts as you complete your testimony.

So with that, I would just say all of your testimony in its completion will be inserted into the record. You are free to give that testimony any way you like.

So let us begin with you, Deputy Assistant Secretary Simons.

STATEMENT OF PAUL SIMONS, DEPUTY ASSISTANT SECRETARY OF STATE FOR ENERGY, SANCTIONS AND COMMODITY POLICY, ECONOMIC AND BUSINESS AFFAIRS BUREAU, U.S. DEPARTMENT OF STATE

Mr. SIMONS. Thank you, Mr. Chairman. Thank you for the opportunity to testify this afternoon on the very important issue of U.S. energy security and West Africa. I would ask that my full testimony be entered into the record and I would like to present just a few brief comments in my oral statement.

I would like to focus on three points. First, West Africa is very much an important region of the world in terms of energy security for the United States and for commercial opportunities. It will continue to play an important role as a significant contributor to the diversity of supply that was outlined in the President's April 2001 energy policy. We recognize Nigeria's role in particular as a major energy supplier and as the anchor of West Africa. Nigeria in recent years has grown to become the fifth largest supplier of crude oil to the U.S., contributing something more than a million barrels a day, about 10 percent of our total imports. It is expected to become an increasing supplier of crude oil as well as an important supplier of LNG in the coming years.

Angola also now produces over a million barrels of oil a day, a figure that we anticipate will increase substantially in the coming years as new fields are brought on. Already we are importing more than 350,000 barrels a day of Angola's production here into the United States.

Equatorial Guinea, as you mentioned, Mr. Chairman, is also emerging as a major producer, and in 2003 oil began to flow for the first time through the $3.7 billion Chad-Cameroon pipeline, the largest single private U.S. investment in Africa.

So we have important energy security as well as commercial interests in promoting a stable environment for oil production in West Africa.

The second point—which has also been highlighted by the committee as well as in the recent CSIS report, which we very much welcome—is that the U.S. has a strong interest in supporting oil producing countries to channel receipts from energy development into poverty reduction and solid and sustainable economic development that benefits their populations. The key here of course is transparency.

The administration has demonstrated a clear commitment to encouraging reforms needed to improve investment climates and to create transparent systems. As President Bush highlighted at the Sea Island Summit, we are committed both to taking our own important steps to help fight corruption as well as to support the efforts of developing countries. I would specifically note that this year our G–8 leaders followed up on the commitments made in Evian the prior year to pilot efforts, to support transparency compacts that we were able to put together in June at Sea Island with four countries, to promote transparent budget, procurement, and concession-letting policies.

These compacts, which involve an important element of political contribution on the part of the developing countries, will help open up government processes, will help reveal to citizens and others the sources and uses of public resources, and will also help establish a clearer and more level playing field for business.

The G–8 initiative focuses on host government commitments and leadership to fight corruption. It is not only driven by the G–8 side. There is a very important element of host government buy-in, which is something unique to this compact process. It covers procurement processes, and concession-letting. It recognizes that the government commitments to transparency and good governance are central to ensuring sound and accountable uses of energy sector resources.

My third point is to highlight the fact that the government of Nigeria was one of the four countries that was involved in the pilot programs and the Nigerian commitments at Sea Island we believe demonstrate this government's full ownership of its reform program. It is neither imposed by the international community nor dependent on external actors for its success.

We are deeply engaged in transparency and good governance activities in Nigeria. We believe that the initial commitment that the Nigerians have made—and I would draw your attention to the full text of the Nigeria transparency compact, which is really quite an impressive document. They have agreed to move ahead with full disclosure of fiscal activity of the government. They put their budget, including the energy portion of it, out on the Internet. They are launching an effort beginning in September to divulge the balance on petroleum proceeds, the inflows and the outflows into the petroleum account. They are also disclosing much more information on how they award contracts.

So it really is a landmark effort and initiative by the government of Nigeria. Hopefully, this will serve as a model for other oil-producing countries as well as other developing countries as they move forward to develop full ownership of the transparency process.

Let me conclude by saying that improving transparency in the oil and gas sectors of the major African producers, we believe, is a win-win situation. We believe the fact that Nigerians have bought into this through the G–8 shows that they recognize that for their own political stability they need to turn the corner on this transparency issue.

There have been some ups and downs in Nigeria. We think we have a high degree of political commitment on the part of the current Nigerian government. Finance Minister Ngozi has taken some personal risks in putting this program together. Presidential Adviser Obe Ekaswali also has been very heavily involved. It was really their initiative to get themselves on the agenda at Sea Island.

When we take a look at the history of how countries have been involved in the corruption and transparency fight, one of the real missing elements has been host government buy-in. So we are hopeful that this transparency compact process can lead the way to creating a more stable situation for these energy producers, in particular in West Africa. And we are very pleased at the efforts by the Government of Nigeria to get this launched.

Thank you very much, Mr. Chairman.

[The prepared statement of Mr. Simons follows:]

PREPARED STATEMENT OF PAUL SIMONS

Mr. Chairman, distinguished Committee members, I am pleased to be here today with the Department of Energy to discuss the important role of West Africa in our energy security. The region is important both in an energy security sense and for the commercial opportunities in the region for U.S. firms. As I will outline in my testimony, West Africa will continue to play an important role as a significant contributor to the diversity of supply called for in our energy policy.

The President's National Energy Policy issued in May 2001 noted the importance of Africa to global energy production. As Under Secretary Larson testified in April

2003 and Acting Energy Office Director McManus testified in October 2003, we approach international energy policy recognizing that imports supply roughly half of our energy needs. Some of our trading partners are even more dependent on oil imports. The reality is that a disruption anywhere affects all market participants.

Energy investments are costly, risky and require long term commitments. For that reason, neither companies nor importing countries can afford to have all of their eggs in one basket. Recognizing this reality, our energy policy seeks to encourage in countries around the world like-minded free market policies toward energy and investment, emphasizing the expansion and diversification of energy supplies.

A key component of our effort to diversify energy supplies is to support greater stability and security among existing suppliers. West African energy suppliers have traditionally been quite reliable resources for the world market. Recent trends, however, have threatened the international reputation of some West African countries as reliable suppliers. When one-third of Nigeria's oil production was shut-in during March and April of 2003 because of violence in the Niger Delta, oil markets were faced with an additional, unanticipated supply disruption in the wake of the Venezuela oil strike and activities in Iraq.

In response to these concerns we have increased on-going efforts to foster transparent, accountable governance in the political and economic systems of the region. These efforts are focused on increasing political support for democratic principles and institutions. At the Group of Eight Summit at Sea Island, President Bush brought together G-8 leaders with the heads of four countries to announce wide ranging compacts to support transparency and good governance. The transparency compacts announced at Sea Island demonstrate the tremendous progress in this area since the G-8 announced the action plan on "Fighting Corruption and Improving Transparency" at the 2003 G-8 Summit in Evian, France. I will return to discuss these efforts in greater detail later in my testimony. First, I will outline briefly the energy picture in the Gulf of Guinea region.

NIGERIA

The Administration recognizes Nigeria's role as a major energy supplier and the anchor of West Africa. Nigeria has been the fifth largest supplier of crude oil to the U.S., contributing more than one million barrels per day (bid) so far this year, some 10 percent of U.S. crude oil imports. Approximately 65 percent of Nigerian crude oil production is light and sweet, making it particularly suited for U.S. refineries since it yields high volumes of gasoline. Nigeria has the potential to increase its crude oil production significantly in the next few years as recent deep-water discoveries come on stream.

Nigeria is an increasingly important supplier in the global Liquefied Natural Gas (LNG) market with an estimated 124 trillion cubic feet (Tcf) of proven natural gas reserves (9th largest in the world). However, due to a lack of infrastructure, Nigeria currently flares much of the natural gas it produces and re-injects some to enhance oil recovery. Nigeria really began to develop its gas resources with the September 1999 inauguration of the $3.8 billion LNG facility on Bonny Island. This facility is slated to expand to more than double its current capacity in the near future. Plans for additional LNG facilities are being developed, including several projects that will involve U.S.-based firms.

Nigeria's oil producing Niger Delta remains politically volatile, with intermittent communal violence and labor disputes disrupting production in some areas. Ethnic violence involving well-armed militants, and the Nigerian military, forced oil companies to shut-in some 800,000 b/d during parts of March and April of 2003. Although overall production has returned to previous levels, we remain in close contact with the Nigerian government, the local communities, and the firms operating in the Niger Delta region as they work to address recurring problems.

"Bunkering," or stealing, crude oil from pipelines in the Niger Delta remains a critical concern. While it is difficult to accurately determine the extent of bunkering, estimates are that between 75,000 and 150,000 bid of crude oil are stolen daily. This oil makes its way through illicit channels to markets with the substantial earnings funding various illicit activities in the Delta, including the introduction by local militias of increasingly sophisticated weapons into the region. The Nigerian government recognizes the critical nature of this problem, especially the effect it has had on the level of violence. The government is working to reduce bunkering, but more must be done.

An important incident in April exemplified the continuing violence that plagues the Delta region. Armed bandits attacked a boat carrying a team to inspect a ChevronTexaco facility shut in by the violence over a year ago. Two American citizen contractors and five Nigerians were killed in the attack. While we do not believe that the attackers specifically targeted Americans or ChevronTexaco contractors, the attack demonstrated the unresolved security issues that remain in the Delta.

The Nigerian government is working to address the security issues in the Niger Delta. In August of 2003 approximately 4000 military personnel deployed to the region, upgrading security around some oil facilities. These forces have not, however, actively engaged the well-armed militant groups remaining in the region. Our Mission in Nigeria remains committed to supporting democracy, economic reform, and poverty alleviation. The government of Nigeria has shown recently that it is willing to take an active role in rooting out corruption and enhancing transparency. Below, I will describe its recent actions to achieve a transparency compact with the G-8 at Sea Island.

ANGOLA

The Angolan petroleum industry now produces around one million b/d, a figure that will increase substantially in the coming years as new fields are brought online. During 2003 more than 350,000 b/d of Angola's production came to the U.S. Currently production off-shore of the northern province of Cabinda accounts for most of Angola's oil exports. ChevronTexaco is the largest operator in Angola. We continue to engage the Angolan government on the humanitarian situation in Cabinda province, which remains plagued by a separatist insurgency. Although we consider Cabinda an integral part of Angolan territory, we have urged the Angolan military and rebel groups to take necessary steps to protect internationally recognized human rights in the Cabinda region and seek a peaceful solution to their disputes.

Production from the Cabinda fields will be eclipsed by deepwater production further south in the Kwanza Basin scheduled to come on-line in the coming years. ExxonMobil, BP, Total, Norsk Hydro, and Agip have all made significant discoveries in this area that are under development.

Angolan President dos Santos visited the U.S. in May of this year. In his meetings with the President and with Secretary Powell, we reaffirmed our message of the importance of transparency and accountability. We encouraged Angola to adopt and implement a new staff-monitored IMF program as a fundamental step to build confidence in Angola's commitment to reform. President dos Santos expressed his personal interest in developing a transparency compact with the G-8. Such a compact would require Angola to meet the high standards already set by the current four compact countries, including outlining in detail the steps to be taken to realize a government-wide commitment to transparent budget, procurement and concession-letting processes. This would be a challenging but critical step to enhance the impact of developing Angola's own available resources.

Democratic consolidation is a critical step to national reconciliation and long-term domestic stability in Angola. We were pleased by President dos Santos' commitment during his Washington trip to hold parliamentary and presidential elections not later than 2006. The United States is prepared to provide necessary assistance to ensure that these first post-war elections are free, fair, and credible. During President dos Santos' visit the Government of Angola announced that ChevronTexaco's concession to operate block 0 has been extended from 2010 to 2030. Block 0 currently produces about 400,000 b/d and is currently the most productive concession block in Angola. As part of the extension announcement the Angolan government took the positive first step in publicly announcing terms of the agreement, which included a $210 million signature bonus, and an $80 million social bonus. Public announcement of the bonuses signaled a new attitude toward disclosure, and we are working to reinforce these positive trends.

Our Embassy is actively working with the Angolan government to support the development of a comprehensive domestic energy strategy. The State Department is following on this effort by providing $200,000 in Economic Support Funding to the Department of Energy to support the energy strategy effort with Angola. As part of our efforts we are working with the U.K. to offer the energy expertise and analysis of the International Energy Agency to the Government of Angola to aid it in developing alternatives.

OTHER GULF OF GUINEA ENERGY PRODUCERS

Equatorial Guinea is emerging as a major oil producer in the Gulf of Guinea. ChevronTexaco, ExxonMobil, Marathon Oil, Amerada Hess and Devon Energy are some of the U.S. firms with investments in exploration, production, and service activities in Equatorial Guinea. Equatorial Guinea already produces more than 300,000 b/d and has the potential to reach levels of more than 450,000 b/d in the coming years. We re-opened the U.S. Embassy in Malabo in October of 2003 to enhance our dialogue with the government and signal our commitment to broad engagement with Equatorial Guinea. During a recent meeting with President Obiang, Secretary Powell reiterated the need for Equatorial Guinea to harness the revenues from energy production for the benefit of its entire population. Despite growing oil wealth, Equatorial Guinea suffers from widespread poverty, which will require substantial improvements in governance. We are now working to promote and assist this needed change with the government of Equatorial Guinea, NGOs and U.S. firms.

In 2003 oil began flowing in 2003 through the $3.7 billion Chad-Cameroon Pipeline, the largest single private U.S. investment in Africa, led by ExxonMobil, with the participation of ChevronTexaco. By the end of this year Chad is expected to be producing approximately 225,000 b/d. The pipeline is a good example of sustained cooperative efforts among various entities—governments, international financial institutions, the oil consortium developing the project, NGOs and civil society—to balance economic benefits, transparency, and humanitarian and environmental concerns. Our Ambassador in Chad is deeply engaged with the government to ensure that the unique capacity building and transparency measures incorporated into this project are implemented fully.

While these unique circumstances mean that some aspects of the Chad-Cameroon project may not translate directly to other projects, many invaluable lessons are being learned. Chad's Revenue Management College, an independent body that assures that oil wealth is used to benefit the citizens of Chad, is now operating and will soon begin the process of disbursing the initial revenues from oil production. The College is a unique feature of this project that we worked closely with the World Bank to see put in place. Its aim is to ensure transparent use of Chad's oil revenues to alleviate poverty and to enhance its economic development.

Some concerns remain regarding adequate administrative capacity and oversight of the use of pipeline revenues in Chad, but the project has established channels for discussion and resolution of problems that are inclusive and sensitive to impacts on local populations. We continue to work actively to support the Revenue College process to ensure that Chad's oil revenues are handled in accordance with the country's commitments.

Sao Tome and Principe, though it currently has no oil and gas production, has great promise as a producer in the Gulf of Guinea. Sao Tome's petroleum reserves span both its own Exclusive Economic Zone (EEZ) and a Joint Development Zone (JDZ) with Nigeria. ChevronTexaco and ExxonMobil will lead the exploration and development of the most sought after concession in the JDZ. We are reassured by the continued public commitment of officials at the highest levels in Sao Tome and Nigeria to maintain a high standard of transparency in the oversight of the JDZ. This commitment was demonstrated by the Abuja Joint Declaration, signed on June 26 by Presidents Menezes and Obasanjo, which deals with their Joint Development Zone. In this Declaration, they pledged that "(a)ll payments to the Joint Development Authority by oil companies shall be made public on an individual company basis, quarterly and annually, by the Joint Development Zone and by the companies." Among additional commitments, they agreed that "(t)he use of funds received by our respective governments from activities within the Joint Development Zone shall be monitored and audited, with such audits being made public in accordance with the laws of our respective states."

VOLUNTARY PRINCIPLES ON SECURITY AND HUMAN RIGHTS

Security issues are a concern in several of the countries in the Gulf of Guinea region. The U.S. Government is active as a convener in a process to improve policies and procedures to ensure security while at the same time incorporating proper protections for human rights. In cooperation with the UK, Norwegian and Dutch governments, the Voluntary Principles on Security and Human Rights brings together oil and mining companies from the U.S. and Europe, with leading human rights NGOs and corporate social responsibility organizations. Not only in Africa, but across the world, we are using our good offices to support this effort as companies continue to integrate these principles into their operations and security agreements with host governments on the ground.

The Voluntary Principles process fosters dialogue among governments, companies and NGOs, encouraging all partners to improve the implementation of the very best human rights practices as employees and equipment are protected in difficult operating environments. Our goal is for NGOs to share their expertise in these fields and to give honest feedback to the companies so as to foster a real commitment by all concerned to the best possible human rights standards. The process is designed to provide practical guidance to strengthen human rights safeguards in company security arrangements in the extractive sector. We encourage companies to improve relations with local communities through dialogue and to uphold the rule of law.

TRANSPARENCY AND GOVERNANCE

As has been noted before in hearings before this subcommittee, the U.S. has a strong interest in supporting oil-producing countries that channel receipts from energy development into poverty reduction and solid and sustainable economic development that benefits their populations. Democratization and the development of accountable governing institutions are particularly important in reducing corruption and oil-related conflicts and promoting supply stability from oil and gas producers around the world, especially in Africa.

Many African energy resources are located offshore in deep and ultra-deep water locations that require tremendous capital resources to produce. As a result, foreign investment and technology are crucial to continued expansion of energy production across the Gulf of Guinea. Those countries that can demonstrate a stable rule of law and predictable investment climate will have the best opportunity to attract the investments needed to develop their petroleum resources.

This past February, the IMF and World Bank hosted a conference in Libreville, Gabon, on transparency in the oil sector. The conference brought together government and private sector participants from across West Africa to discuss governance in extractive industries. Our Economic Counselor from Lagos participated in the conference to highlight the U.S. commitment to support African countries working to fight corruption and enhance transparency.

COMMITMENTS AND ANNOUNCEMENTS AT SEA ISLAND

The Administration has demonstrated a clear commitment to encouraging the reforms needed to improve investment climates. As President Bush highlighted at the Sea Island Summit, we are committed both to taking our own important steps to help fight corruption worldwide, as well as to supporting the efforts of developing countries. Specifically this year, G-8 leaders launched transparency compacts with four countries to promote transparent budget, procurement and concession-letting policies. These compacts will help to open up government processes and reveal to citizens and others the source and uses of public resources, while helping to establish a cleaner and more level playing field for business. Countries with these attributes make better hosts to the very large investments needed to develop energy resources, they make more reliable contributors to our own energy security, and they are more able to promote broad-based lasting development progress as a foundation for political stability.

The G-8 initiative focuses on host government commitments and leadership to fight corruption, and to enhance transparency, on both the revenue and expenditure sides. The initiative covers procurement processes and concession letting because these are also important channels through which resources are used and controlled. Our approach recognizes that government commitment to transparency and good governance is central to ensuring sound and accountable use of energy sector resources.

The governments of Nigeria, Peru, Nicaragua, and Georgia were the first to make the political commitment, in the form of a compact agreement between the G-8 and each of these pilot countries. These compacts were announced at Sea Island along with the Sea Island Declaration on transparency and anti-corruption.

Pilot governments have specified, in concrete terms, what they intend to do to bring greater transparency and accountability to the management of public resources. Participating G-8 countries will support them by providing bilateral technical assistance resources and political support. With each compact partner, participants will develop an action plan tailored to the country's specific circumstances and priorities and that sets forth our joint efforts to achieve measurable improvements. Participating G-8 governments will work with partner countries to enlist the support and engagement of private companies, organizations and civil society, as well as the international financial institutions.

For pilot countries rich in oil, natural gas, and mineral resources like Nigeria, the compacts will pay particular attention to the transparency of revenue flows and payments originating in these sectors, while protecting the necessary confidentiality of business operations. Our philosophy is that, to be effective, this approach must focus primarily on how governments allocate and use the resources associated with these key sectors. In most cases, their own state-owned enterprises have active control over much of the activity in these sectors. We hope that more countries will follow the leadership and commitment of the first four pilots, and that these pilots will provide models and a demonstration effect for the countries to follow.

NIGERIA'S TRANSPARENCY COMPACT

In Nigeria, President Obasanjo and members of his cabinet are moving forward with important actions to advance transparency and anticorruption efforts. Nigeria's commitment at the Sea Island Summit demonstrates the government's full ownership over its reform program; it is neither imposed by the international community nor dependent on external actors for its success. The U.S. is already deeply engaged in transparency and good governance activities in Nigeria. USAID is providing technical assistance to Nigeria's Federal Budget Office, as well as working with key civil society and private sector organizations to build their capacity to participate in the development and review of Nigeria's budget. USAID is also funding an exchange program among oil-affected communities in Angola, Nigeria, and Sao Tome to assist them in developing strategies for positive transformation by using concrete examples of good practice. We are supporting World Bank and IMF efforts to help build capacity and provide technical assistance on governance, transparency and budgeting. Improving transparency in the oil and gas sectors of major African producers is very much a win-win situation and a crucial element in our drive to ensure our energy, security. President Bush personally welcomed Nigeria's leadership in this area last month at Sea Island.

THE GULF OF GUINEA REGION OF AFRICA

Senator HAGEL. Mr. Simons, thank you.
Mr. Brodman.

STATEMENT OF JOHN R. BRODMAN, DEPUTY ASSISTANT SECRETARY OF ENERGY FOR INTERNATIONAL ENERGY POLICY, OFFICE OF POLICY AND INTERNATIONAL AFFAIRS, U.S. DEPARTMENT OF ENERGY

Mr. BRODMAN. Thank you, Mr. Chairman. I am pleased to be here to discuss the important role of West Africa in our energy security. The Department of Energy fully supports the subcommittee's undertaking of this series of hearings on energy security, begun by you last year, and we stand prepared to cooperate with you in efforts aimed at improving the security of our energy supplies.

I testified before this subcommittee on the importance of Latin America and Africa to our energy security in October 2003 and the points that I raised in that earlier testimony still stand. My remarks today can be viewed as a followup and an update to that earlier testimony, with a specific focus on Africa and in particular on West Africa.

For our purposes today, I have defined West Africa as the regional grouping of countries from Mauritania to Angola and inwards to include Chad and the two Congos. This group includes six significant current oil-producing countries, namely Nigeria, Angola, Gabon, Congo Brazzaville, Equatorial Guinea, and Chad, and other countries with smaller amounts of current production, namely Cameroon, Ghana, Cote d'Ivoire, and Congo Kinshasa. It also includes a number of frontier oil provinces that may become hot exploration areas during the coming decade, and here I am referring to Mauritania, Senegal, Sierra Leone, Sao Tome and Principe, The Gambia, Liberia, Togo, Benin and Niger.

Now, just a brief word about our energy policy. From an energy security point of view, U.S. Government energy policy has a role to play in assuring that our energy supplies represent a diverse set of energy resources from a diverse set of energy suppliers. President Bush's National Energy Plan, issued in May 2001, embodies these fundamental principles and recommends actions that will help achieve these objectives.

The plan also recognizes that the United States cannot address its energy concerns alone, that our energy security is intricately linked to international markets as a result of our increasing dependence on external sources of supply.

The National Energy Plan specifically noted the importance of Africa to U.S. energy security and to global energy production, and it provided specific recommendations for strengthening our engagement, promoting favorable investment climates, and encouraging transparency, good governance, and the responsible use of revenues from natural resource development to support sustainable social and economic development in Africa.

In my earlier testimony I noted that our policy of diversifying supplies relies on commercial investments in energy projects. We do not tell our companies where to invest or where to buy oil and gas. It is up to them to weigh all the factors involved and to make their own decisions. I noted that there are a considerable number of obstacles to realizing successful development of commercial trade and investment flows directly related to economic, political, and security risks and that many of the new sources of supply, such as those in Africa, are more dispersed geographically, are often located in undeveloped and conflicted regions, and they often carry very high recovery, transportation, and infrastructure costs.

I also outlined new risks from so-called nontraditional and often internal sources of conflict, such as corruption, the lack of rule of law, political instability, ethnic and religious conflicts, and other so-called governance issues. I noted that the capabilities of energy companies and financial institutions to handle these risks in order to allow energy development projects to become economically viable is itself a tremendous challenge.

I noted our concern about the negative impacts that an unfavorable business climate can have on the resource development process. Nowhere is this more true than in Africa. An unfavorable business climate may keep needed resources locked away from development for a long time.

I concluded my earlier testimony by indicating a need to remain engaged on sustainable development issues with African producers in order to minimize many of these new internal threats to stability and in order to promote, protect, and defend our security of supply and our own security in commercial trade, energy trade, and development relationships.

These points are still valid and, while that is so, my testimony today will focus more on the role of West Africa in global energy markets and on the prospects for continued development of oil and gas in the region. My colleague from the State Department, Paul Simons, has already spoken about many of these policies and programs that we have under way in West Africa to promote transparency, stability, and good governance.

Africa as a whole is currently producing nearly 9 million barrels of oil a day, with approximately 4.7 million barrels per day coming from West Africa. African oil production currently accounts for about 11 percent of the world's total oil supply and Africa for the first 5 months of the year 2004, Africa was supplying approximately 18 percent of U.S. net oil imports, which is a considerable jump over what it was just last year and the year prior to that.

At the present time, Nigeria, Algeria, and Angola are among the top ten suppliers of oil to the United States and, as you noted, Mr. Chairman, our dependence on oil from Africa is expected to rise in the future. Estimates of Africa's proven oil reserves vary considerably from source to source, but most sources indicate that African proven oil reserves in the range of approximately 7 to 10 percent of the world's total, or roughly some 80 to 110 billion barrels.

Estimates of Africa's undiscovered oil resources and of its undiscovered producible reserves vary even more widely, but most estimates support the expectation that Africa as a whole and West Africa in particular have a reserve base that is capable of supporting increased oil production for years to come.

Several recent studies undertaken by the U.S. Department of Energy and others conclude that sizable but untested resource potential exists in many African and West African countries. In the right circumstances—and that is an important phrase when it comes to Africa—in the right circumstances, African oil production could rise by 4 to 6 million barrels a day in the next 10 to 15 years. In these scenarios, West Africa's five key producing countries—Nigeria, Angola, Gabon, the Republic of Congo Brazzaville, and Equatorial Guinea—could see their combined production rise by 2 to 3 million barrels per day in the next 5 to 10 years and by 3 to 5 million barrels per day in the next 10 to 15 years. The revenues from this oil resource development in West Africa alone are likely to amount to over $50 billion a year in each and every one of those years.

West Africa's frontier oil countries, such as Senegal, Sierra Leone, and San Tome and Principle in the joint development zone and other countries, could also become hot exploration areas in the next decade. While their potential is very promising, it is too early to determine with any certainty what the timing and magnitude of future production from these countries is likely to be.

While under almost any scenario Africa will become an increasingly important supplier to the world's energy markets in the next decade, continued success will greatly depend on the continued favorableness of deep water geology and continued investment. Continued investment will depend on political and economic stability, on the existence of transparent regulatory regimes, and on a continuation of competitive fiscal terms capable of attracting international capital.

Turning to natural gas for a moment, as natural gas becomes monetized in Africa and in West Africa it can also play a larger role in economic development. Africa currently holds approximately 8 to 10 percent of the world's proven reserves of natural gas and is responsible for a little over 5 percent of world gas production. This figure on world gas production does not include the gas that is currently being flared or reinjected in Africa.

Many countries in Africa and in West Africa have significant untapped production and export potential and, with world gas demand rising, many international companies are rapidly expanding their investments in African gas development projects.

While development of gas is under way in several countries, there are many other countries in Africa that are still struggling with the basic principles of gas commercialization and with its economic and regulatory links to the power and other sectors for domestic consumption. As you know, many of these countries have very little, very limited technical and managerial capability to see these regulatory institutions put in place in a conducive manner that will support gas development.

The U.S. consumes more than 24 trillion cubic feet of natural gas a year and our dependence on natural gas and imported LNG is expected to rise. Much of this additional gas to supply the U.S. market could come from West Africa.

To sum things up, Mr. Chairman, given its reserve base, it is unlikely that Africa or West Africa will ever take the place of the Middle East in its importance to the world's oil and gas markets, but it will nevertheless continue to be an important source of additional supplies to the United States and the world market.

We have learned from experience that it is the additional or marginal barrels that have a significant impact on developments in the marketplace, and Africa has the potential to be an important source of the marginal barrels and incremental supplies of gas for years to come. West Africa is one of the world's fastest growing sources of oil and gas and is now the location of significant new investments by many of the United States and international major oil companies. West Africa is also a part of the Atlantic Basin, relatively close to the main markets in the United States. It is also the source of light sweet crude oil so critical for U.S. refining needs and it as such represents a key replacement for declining North Sea production, in the United Kingdom primarily, but beginning more slowly in Norway as well.

Mr. Chairman, the rest of my prepared testimony provides a synopsis of recent developments in the oil and gas sectors of the key West African producers, and I would like to submit my entire testimony for the record. But in the interest of time, I will forgo the country by country detail.

I want to thank you very much for the opportunity to testify before this committee today and I welcome any questions that you or the committee may have. Thank you.

[The prepared statement of Mr. Brodman follows:]

PREPARED STATEMENT OF JOHN R. BRODMAN

Mr. Chairman, and Members of the Subcommittee. I am pleased to be here today to discuss the important role of West Africa in U.S. and global energy security. The DOE fully supports the Subcommittee's undertaking of this series of hearings on energy security, begun last year, and we stand prepared to cooperate fully with you in efforts aimed at improving the security of our energy supplies.

I testified before this Subcommittee on the importance of Latin America and Africa to U.S. and global energy security in October 2003, and the points I raised in that earlier testimony still stand. My remarks today can be viewed as a follow-up and an update to that earlier testimony, with a specific focus on Africa and, in particular, West Africa.

For our purposes today, I have defined West Africa as the regional grouping of countries from Mauritania to Angola, and inwards to include Chad and the two Congos. This group includes six significant, current oil producing countries (Nigeria, Angola, Gabon, Congo Brazzaville, Equatorial Guinea, Chad), other countries with smaller amounts of current production (Cameroon, Ghana, Cote d'Ivoire, Congo Kinshasa), a number of frontier oil provinces that may become "hot" exploration areas during the coming decade (Mauritania, Senegal, Sierra Leone, and Sao Tome and Principe), and others that are currently, or soon hope to be, exploring for oil and gas (The Gambia, Liberia, Togo, Benin, and Niger).

U.S. ENERGY POLICY AND ENERGY SECURITY

From an energy security point of view, U.S. Government energy policy has a role to play in assuring that our energy supplies represent a diverse set of energy resources from a diverse set of energy suppliers. President Bush's National Energy Plan, issued in May 2001, embodies these fundamental principles and recommends actions that will help achieve these objectives. The Plan also recognizes that the United States cannot address its energy concerns alone, that our energy security is intricately linked to international markets as a result of our increasing dependence on external sources of supply.

In recognizing these challenges, the National Energy Plan calls for strengthening global alliances through such important mechanisms as our existing bilateral relationships with key countries and regions around the world, and through our participation in multilateral international energy organizations. The National Energy Plan specifically noted the importance of Africa to U.S. energy security and to global energy production, and it provided specific recommendations for strengthening our engagement, promoting favorable investment climates, and encouraging transparency, good governance and the responsible use of natural resource revenues to support sustainable social and economic development in Africa.

In my earlier testimony, I noted that our policy of diversifying supplies relies on commercial investment in energy projects. As I stated before this subcommittee last year, we don't tell our companies where to invest or where to buy oil and gas. It is up to them to weigh all the factors involved and to make their own decisions. I also noted that there are a considerable number of obstacles to realizing successful development of commercial trade and investment flows, directly related to economic, political, and security risks. I noted that many new sources of supply are more dispersed geographically, are often located in undeveloped and conflicted regions, and they often carry very high recovery, transportation and infrastructure costs.

I also outlined new risks from non-traditional, and often internal sources of conflict such as corruption, the lack of "rule of law," political instability, ethnic and religious conflicts and other so-called governance issues. I stated that the capabilities of energy companies and financial institutions to handle these risks, in order to allow energy development projects to become economically viable, is itself a potential source of worry for our energy security.

I noted that I was less concerned about the technical capabilities of the companies, but more concerned about the impact that an unfavorable business climate can have on the resource development process. Continued investment will depend on political and economic stability, on the existence of transparent regulatory regimes, and on a continuation of competitive fiscal terms capable of attracting international capital, and nowhere is this truer than in Africa. An unfavorable business climate may keep needed resources locked away from development for a long time. I concluded my earlier testimony by indicating a need to remain engaged on sustainable development issues with Africa producers in order to minimize many of these new internal threats to stability, and to promote, protect and defend our security of supply, and our own security in commercial energy trade and development relationships.

While these points are still valid, my testimony today will focus more on the role of West Africa in global energy markets, and on the prospects for continued development of oil and gas in the region. My colleague from the Department of State will talk about many of the policies and programs we have underway in West Africa to promote transparency, stability, and good governance.

THE IMPORTANCE OF AFRICA

Africa as a whole is currently producing nearly nine million barrels of oil per day, with approximately 4.7 million barrels per day coming from West Africa. African oil production currently accounts for approximately 11 percent of the world's oil supply. Africa currently supplies approximately 18 percent of U.S. net oil imports, and both, Nigeria and Angola are currently among the top 10 suppliers of oil to the United States. U.S. dependence on oil from Africa is expected to rise in the future as new fields are brought on line.

Estimates of Africa's proven oil reserves vary considerably from source to source, but most sources indicate that Africa proven oil reserves are in the range of approximately 7 to 9 percent of the world's total, or 80 to 100 billion barrels. Estimates of Africa's undiscovered oil resources, and of its undiscovered, producible reserves vary even more widely, but most estimates support the expectation that Africa as a whole, and West Africa in particular, have a reserve base that is capable of supporting increased oil production for years to come.

Several recent studies undertaken by the USDOE and others conclude that sizable but untested resource potential exists in many African and West African countries. With continuation of deep water and ultra deep water discoveries, with optimization of overall resource development and production, and with sufficient levels of investment in exploration and development and in maintaining production from mature fields, African oil production could rise by 4-6 mmbd in the next 10 to 15 years.

In these scenarios, West Africa's 5 key producing countries (Nigeria, Angola, Gabon, Republic of Congo-B, and Equatorial Guinea) could see their combined production rise by 2 to 3 million barrels per day in the next 5 to 10 years, and by 3 to 5 million barrels per day in the next 10 to 15 years. West Africa's frontier oil countries, such as Senegal, Sierra Leone, and Sao Tome and Principe in the Joint Development Zone, and other countries, could also become "hot" exploration areas in the next decade. While their potential is very promising, it is too early to determine with any certainty what the timing and magnitude of future production from these countries is likely to be.

While under almost any scenario, Africa will become an increasingly important supplier to the world's energy markets in the next decade, continued success will greatly depend on the continued favorableness of deep water geology and continued investment. Continued investment will depend on political and economic stability, on the existence of transparent regulatory regimes, and on a continuation of competitive fiscal terms capable of attracting international capital.

As natural gas becomes monetized in Africa and in West Africa, it can also play a larger role in economic development. Africa currently holds approximately 8 percent of the world's proven reserves of natural gas, and is responsible for a little over 5 percent of world gas production (note: this figure does not include gas flared or reinjected). Many countries in Africa and in West Africa have significant untapped production and export potential, and with world gas demand rising, many international companies are rapidly expanding their investments in African gas development projects.

The U.S. Department of Energy (USDOE) is working with various African countries and international organizations in Africa to promote the development and utilization of natural gas resources, which, in turn, will directly contribute to the reduction of gas flaring and venting, increase revenues to the state, and help provide efficient, reliable energy for sustainable development.

Development of natural gas is well underway in several countries, but many countries are still struggling with the basic principles of gas commercialization and its economic and regulatory links to the power and other sectors for domestic consumption.

West Africa is also a part of the Atlantic Basin, and relatively close to the main markets in the U.S. West Africa is also the source of light, sweet crude oil critical for U.S. refining needs, and a key replacement for declining North Sea oil production.

The U.S. consumes more than 24 trillion cubic feet of natural gas per year. Our dependence on natural gas and imported LNG is expected to rise, and much of that could come from West Africa.

Given its reserve base, it is unlikely that Africa or West Africa will ever take the place of the Middle East in its importance to the world's oil and gas markets, but it will nevertheless continue to be an important source of additional supplies to the U.S. and world market. We have learned from experience that the additional or marginal barrels can have a significant impact on developments in the marketplace, and West Africa has the potential to be an important source of the marginal barrels for years to come.

West Africa is one of the world's fastest growing sources of oil and gas and is now the location of significant new investments by many of the U.S. and international major oil companies. The following brief synopsis of recent developments by country is indicative of the activity underway.

Chad began producing oil for the first time in July 2003, and is currently producing 110,000 barrels per day (bpd). The U.S. is now receiving approximately 34,000 bpd of oil from Chad that did not exist a little over a year ago. The realization of oil production in Chad was made possible by the construction of the $3.7 billion, 650-mile Chad-Cameroon oil pipeline project, led by ExxonMobil.

Nigeria, an OPEC member, has proven oil reserves of nearly 40 billion barrels, and currently produces approximately 2.5 million barrels per day. Nigeria's goal is to raise its production capacity to 4 million barrels of oil per day by 2010. Nigeria has also emerged as a major exporter of liquefied natural gas (LNG) in recent years (it is now the second largest LNG exporter on the African continent and the fifth largest in the world), and it has the world's 9th largest reserves of natural gas and the largest reserves in sub-Sahara Africa.

Angola, a non-OPEC member, is the second largest sub-Saharan oil exporter to the U.S., currently producing 1.07 million barrels per day. Angola's total proven oil resources are estimated to be between 5 and 9 billion barrels, and rising with new discoveries. Angola's stated goal is to increase oil production to 2 million barrels per day by 2008. Angola is also planning the development of an LNG project for export.

On May 13th, at the Angolan Embassy in Washington, Sonangol (Angolan national oil company), ChevronTexaco (lead), Total and ENI signed an extension agreement to further the development of one of Angola's most prolific offshore oil production areas, Block 0. This agreement has been negotiated in an open and transparent manner and includes disclosure terms for the signing bonus. The disclosure terms for the signing bonus represent significant progress for transparency and meaningful reform in revenue oversight and will engender greater goodwill in the international community.

Equatorial Guinea's oil production is currently about 360,000 barrels per day. It is a non-OPEC producer and has total proven oil reserves conservatively estimated at 1.2 billion barrels. Major oil companies operating in Equatorial Guinea are Marathon Oil, ExxonMobil, AmeradaHess, and ChevronTexaco. The U.S. reopened its Embassy in Equatorial Guinea in October 2003. President Obiang recently visited the U.S. and met with Secretary Abraham at the Department to discuss bilateral energy issues. Equatorial Guinea also has considerable natural gas potential and is planning the development of a LNG project for export.

Gabon is West Africa's fourth largest oil producer, currently producing about 250,000 barrels per day. While Gabon's oil production has decreased somewhat in recent years, it has recently taken steps to improve the investment climate and attract more interest. It also recently settled a territorial dispute with Equatorial Guinea that will allow exploration and development to proceed in previously disputed offshore area.

Republic of Congo (Brazzaville) is currently producing about 243,000 barrels per day. The majority of its crude oil production is located offshore, and is considered to have significant potential.

Sao Tome and Principe—Since the attempted coup of one year ago in Sao Tome and Principe, there has been a reconciliation process underway which thus far has remained peaceful. As part of this process, there has been a series of public town hall style meetings to allow a wide range of Sao Tomean society to debate national direction and the priorities for future oil revenues. Commitments have been made by the Governments of Sao Tome and Principe and Nigeria to ensure openness and transparency in the bidding process on oil blocks in the offshore Joint Development Zone (JDZ) shared by the two countries. On June 26, 2004, President de Menezes of Sao Tome and President Obasanjo of Nigeria signed the Abuja Declaration which states that oil payments made by companies to the Joint Development Authority (JDA) will be made public quarterly and annually by the JDA and that use of JDZ funds received by the two governments will be monitored and audited, with the audits made public.

CLOSING

Mr. Chairman, that completes my overview of West African oil and gas developments, and I believe that my statement covers all the topics you have proposed for today's hearing. Thank you for the opportunity to testify before you today. I welcome any questions that the committee might have.

Attachments: Chart on African Oil and Gas Production; Table on U.S. Petroleum imports from Africa.

NET IMPORTS OF OIL (CRUDE & PRODUCTS) INTO THE U.S. BY AFRICAN COUNTRY
(JANUARY THROUGH APRIL 2004)

Country	Daily Average (Thousand Barrels)
OPEC	
Algeria	400
Nigeria	1130
Non-OPEC	
Angola	309
Cameroon	30
Congo (B)	13
Congo (K)	6
Egypt	5
Gabon	134
Ivory Coast	2
Tunisia	1
Total African Imports	2030
Total U.S. Imports	11405
Percentage of Total Net Imports	17.8

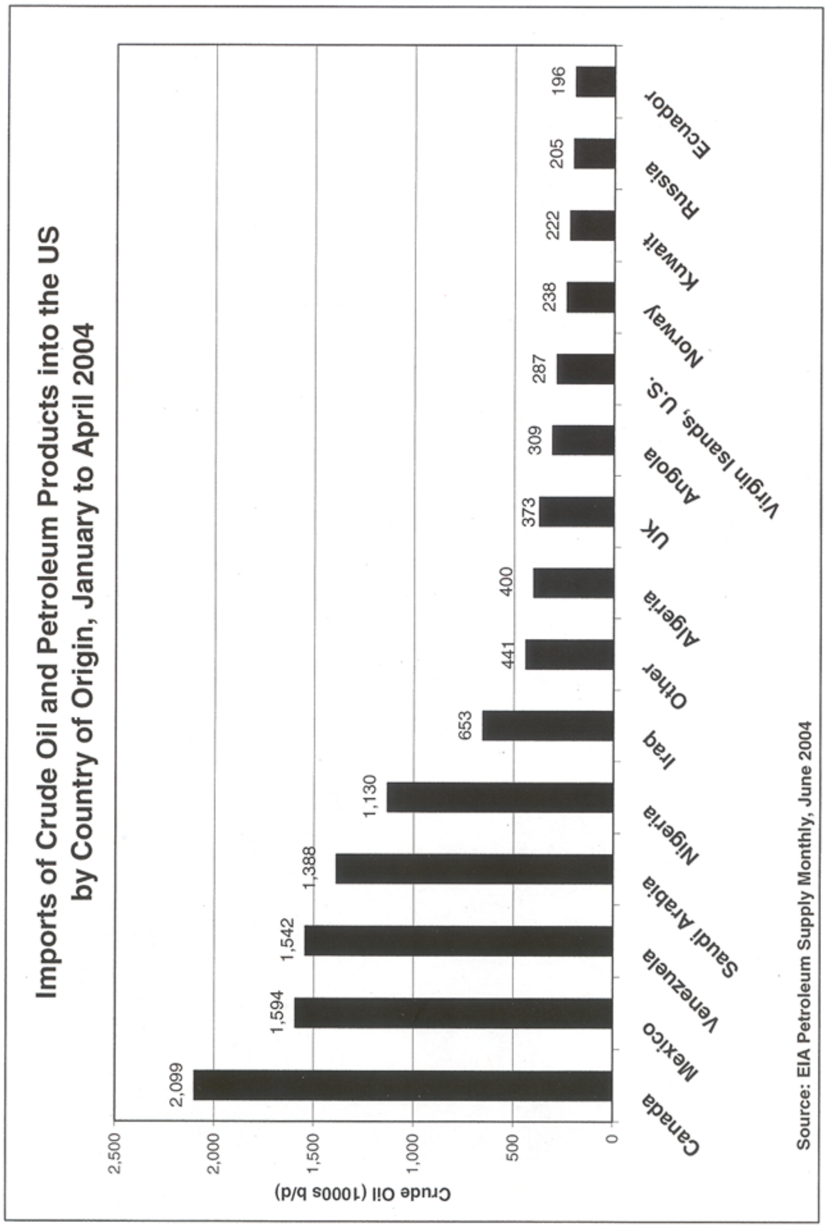
Source: EIA Petroleum Supply Monthly, June 2004.

Africa

- **Proven Oil Reserves as of 1/1/04: 87.0 billion barrels and 7% of the world's total**
- **Proven Natural Gas Reserves as of 1/1/04: 453 trillion cubic feet and 7% of the world's total**
- **Total Oil Production (2003): 8.7 million barrels per day and 11% of the world's total**
- **U.S. Oil Imports from the Africa (April 2004): 2.03 MBD and 18% of total net oil imports**

Sources: Oil and Gas Journal for Reserves; Energy Information Administration for Production

April 2004


Imports of Crude Oil and Petroleum Products into the US
by Country of Origin, January to April 2004
Crude Oil (1000s b/d)
2,500
2,000
1,500
1,000
500
0
2,099
1,594
1,542
1,388
1,130
653
441
400
373
309
287
238
222
205
196
Canada
Mexico
Venezuela
Saudi Arabia
Nigeria
Iraq
Other
Algeria
UK
Angola
Virgin Isands, U.S.
Norway
Kuwait
Russia
Ecuador
Source: EIA Petroleum Supply Monthly, June 2004

Senator HAGEL. Mr. Brodman, thank you. As I stated at the beginning of the hearing, each of your full texts of your testimony will be included for the record.

Mr. Brodman, you mentioned in your statement a number of criteria that will be and of course are critically important to the development of these energy resources in Africa. One of those of course is investment. Would you go a little deeper into that as to what your sense of the level of foreign direct investment into energy development in these areas? Obviously, the other criteria that you mentioned affect investment—security, stability. But how would you rate the investment so far, what we anticipate it to be as to the potential of developing those areas as you have noted in your statement?

Mr. BRODMAN. Mr. Chairman, I do not have exact figures in front of me about the cumulative investments that have been made by I guess both public and private oil companies in the development of oil and gas resources in the West African countries that we are focusing on here today. But I would venture a guess that it is probably somewhere in the neighborhood of $50 to $75 billion that has been invested already.

I have also seen figures that suggest that the investments that will go into West African oil and gas development over the next 10 years are of a similar, similar magnitude. So we are looking at West Africa as being literally one of the most important investment plays and investment outlets for both the international major oil companies and many of the large independent oil companies as well.

Now, as you know, investment is very fickle and it will tend to go to the places where risks are lower and rates of return are higher. In many of the so-called frontier West African oil provinces, there is so far no proven track record as to how the companies' investments will in fact be handled over time. I think there is a certain amount of reluctance on the part of any large investor to be the first, especially when many of the countries lack the kind of institutions, I think, and technical and managerial capacity to deal with large-scale investments by multinational investors.

So I think for many of the frontier areas there will be a need for considerable institution-building before we really see investments take off. In many of the current producing areas where the companies have had a track record of operating for many years, there is still a need to improve transparency and the rule of law. In many places in West Africa, many countries will oftentimes change the tax code, change the rules governing foreign exchange earnings and the ability of companies to repatriate their profits, and things like that, without much consultation. We have in several cases seen investments slow down as a result.

So it is a constant—I think it is a constant—there has to be some constant vigilance and constant efforts on our part to work with these countries to help them and the rest of the international community understand that a stable, open and transparent investment environment is the key ingredient that will be needed if we expect to see these resources develop in a timely manner.

Senator HAGEL. Of the numbers that you noted—and I recognize you do not have the specific figures with you and I recognize that they are general figures—the $50 to $75 billion number, what percent of that would you say would be American investment?

Mr. BRODMAN. Probably close to half. It would vary country by country, but I would say if you are talking about the past cumulative investment it is probably close to half.

Senator HAGEL. Would you say that, from what you know, would hold for the future, over the next 5 years or so, that that level of American investment would be maintained at half of that total investment, from what you know?

Mr. BRODMAN. From what I know, I believe that American investment may actually rise. Again, it will vary considerably from country to country. I have not sat down and really racked up all the investments country by country and divided them up, American or not American. But these are just my sort of seat of the pants guesses from being familiar with the region.

Senator HAGEL. Where would the bulk of the remainder of that come from? Europe?

Mr. BRODMAN. Europe predominantly.

Senator HAGEL. Is there in your sense of this significant Chinese investment in energy?

Mr. BRODMAN. Not yet. The Chinese are very actively trying to become more involved in West Africa.

Senator HAGEL. By the way, I will address the questions to maybe one of you specifically, but I would appreciate, if one of you or both of you have additional comments, please feel free to engage. Thank you.

Where do you think the U.S. Government can do more, should do more, in the way of assisting investment? Now, some of it will spill over into Mr. Simons' area, I know. But we are somewhat limited, any government is, as to what we can do. We have some programs that we have mentioned this afternoon. I want to get into some of those, Millennium Challenge Account, some of these areas where it does cut to the core issue of climate and environment, stability, security, things that we try to do, what governments can focus on.

But any areas, Mr. Brodman, that you think the government can do more in and should do more in in the way of encouraging investment in these areas?

Mr. BRODMAN. Sir, I think we really need—we have done a very good job of engaging these countries on a bilateral basis. But I think we need to keep the dialog going to help them out and to help them to build a technical and managerial capacity, to understand the trends in the oil and gas development around the world. I think it is very important that we help the countries of West Africa learn about what I would call international best practices, or sort of the international standard for investment regimes and investment climates, so they can make more informed decisions and take the steps that are necessary to attract the international investments that they will need. I think that is one thing.

I also think we need to encourage them to maintain an open dialog with the companies so that every time they are thinking of changing their tax laws or their petroleum legislation or the laws governing exploration and development in their countries that they do so in consultation with the private companies that will be making the investments, so as to not take steps that will adversely affect the investments in the longer term.

I think it is this kind of dialog that is the most beneficial.

Senator HAGEL. Let me ask a question that both of you can answer, and I know Mr. Simons will get into this. But another question that relates to this: How do we coordinate our policy on this issue between your two Departments and agencies? How do we integrate foreign policy and energy policy specifically in this area? And I will let you start with that, Mr. Simons, because you have some other things you want to talk about as well.

Mr. SIMONS. Sure. If I could just pick up on the last question and perhaps add a little bit and then move on to the question of the policy integration. On the issue of promoting investment, I think we can look at it perhaps on three different levels. One is the broad macro level, where we have really been working very closely with the IMF and the World Bank to get these African countries in the situation of basic macroeconomic stability, which also is a precursor for any sort of reasonable involvement by oil companies and energy sector investments. So we have the international financial institutions playing on that macro level.

We have the international financial institutions also playing a role now on transparency, good government, and budgetary issues, much more so than they did say 10 or 15 years ago. So I think that has been an area we have made a lot of progress.

The second issue, I would agree with John, involves ways that we can introduce, through bilateral mechanisms, through dialog with the Department of Energy and private consulting firms, appropriate investment strategies, appropriate laws, regulations, and best practices. That is very, very important as well.

Then finally, I think we should not overlook the impact that we can have on the ground through our missions, through our Ambassadors, our staffs, in terms of providing linkages between the companies and host governments. For instance, we are reopening an office in Equatorial Guinea for the first time in a number of years. We are expecting that will be an important link, an important bridge between our companies and the Government of Equatorial Guinea.

Our Ambassadors throughout West Africa are extremely active on commercial advocacy as well as investment climate advocacy with host governments. It is one of their top priorities. And they are really the hands and ears on the ground. Having served in Africa myself, as has John, I think we recognize the importance of having folks on the ground who have a feel for how far local governments can go, how you can steer them, how you can get deals done, how to get investment regimes shaped properly.

So I think we have those three levels. I will say a couple words about policy cooperation and coordination. I think, quite frankly, the relationship, the basic players within the U.S. system right now are the Energy Department, the State Department, to some extent the White House. We really have an excellent cooperative relationship. We travel together. We coordinate papers together. We share documents. We are in continuous coordination on the Internet.

Secretary Abraham has been I think a great leader in terms of shepherding the Africa energy minister process along over the the last few years. He has excellent relationships with all the major African energy ministers.

We also work together through the International Energy Agency in Paris to provide initiatives to non-member countries, again to get countries to improve their investment climates.

So I think the inter-agency process, compared to other inter-agency processes that I have worked on over the years, I think it is quite, quite healthy and is working well.

Senator HAGEL. Well, part of the reason for Secretary Abraham's effectiveness is he was trained in the Senate and he brings that advantage to the job that few others have, of course.

Before I go back to Mr. Brodman to get his response to that general question, could you address specifically the Africa Growth and Opportunity Act and the Millennium Challenge Account in the context of what we are talking about here and how we would tailor that, apply that, implement that, get that down into the areas that we are talking about that we must see improvement in in order to connect the investment and all the other pieces that you both have noted in your testimony?

Mr. SIMONS. Right. Mr. Chairman, I do think both the Africa Growth and Opportunity Account as well as the Millennium Challenge Account are very, very important and new tools in our tool kit. They are the sorts of vehicles we did not have 10 years ago to work with. So we are very appreciative that the Congress has given us these instruments that we can use, in addition to the transparency process, which is purely an administration initiative.

But to offer unique kinds of trade opportunities to African countries, to be able to offer substantial amounts of incentive resources for countries that can qualify for the Millennium Challenge Account, is I think very much a cutting edge opportunity and it is one that we do need to take advantage of. And I think we have taken advantage of it.

If you look at the 37 eligible beneficiaries for the Africa Growth and Opportunity Act, most of the major oil producers are included in that group—Nigeria and Angola. We do have conditionality attached to qualifications for membership in that group that references continuing progress in terms of corruption, in terms of rule of law, and in terms of human rights. So we do have benchmarks that countries need to meet. My own personal view of the AGOA is, with respect to oil countries, it gives them the opportunity also to diversify. Certainly we do not want to be creating or promoting countries that are purely dependent on oil. So AGOA really provides the opportunity to develop nontraditional resources, to develop competitiveness in those areas, and to have access to the U.S. market.

With respect to the MCA, the Millennium Challenge Account, we have five West African countries that have qualified in the first tranche. None of them happen to be major oil producers, but the oil producers continue to be candidates. The benchmarks are a little bit higher in terms of transparency and good government. That is not to say the oil countries could not meet the bar, but they have not yet.

I think it provides a good standard to aspire to for the oil producing countries, again a very important tool, and I think as the first set of countries develops their compacts that will also provide some perspective to the countries that are now aspiring under the MCA, and hopefully will show Congress also that this is a very good program and it deserves continued funding.

Senator HAGEL. Thank you.

Mr. Brodman.

Mr. BRODMAN. Mr. Chairman, I would like to echo the sentiments on cooperation that my colleague from the State Department just made. I think we clearly realize, as you stated in your opening statement, that international energy policy is not made or carried out in a vacuum. Our international energy policy is an integral part of our foreign policy, our economic policy. There are elements of trade and investment policy in there and of security policy as well.

So we rely very much on the State Department, the Treasury, USAID, and others for the context, I think, within which we try and develop close bilateral energy relationships to make strides on strictly energy issues with most international governments, and especially those in West Africa.

Our cooperation runs the full gamut. In many cases the energy policy component and dialog that we have ongoing with individual countries is the part of a larger economic dialog that is managed by the Department of State, and in other cases we have a very active energy policy dialog going on, where we invite State Department representatives, but clearly it is the overall energy policy dialog. But we do work very closely with State and are dependent on them for advice and oftentimes resources.

There have been a number of times in the past—as you know, sir, the Department of Energy is not an economic development agency per se, so the resources that we have available to devote to, let us say, economic development issues, including energy policy development, in developing regions of the world, like West Africa, are in fact fairly limited. We have some technical expertise and some advice and we can have working dialogs and exchanges of information with many countries that draw on the expertise and advice that we have. But the resources we have to really carry out sustained programs in individual countries are limited.

In a couple of instances in the past few years, the State Department has been instrumental in helping to provide the Department of Energy with economic support funds to help us carry out programs of assistance in the energy area in specific African countries. More specifically, a number of years ago USAID provided the Department of Energy with several million dollars to start an energy cooperation and assistance program in Nigeria that just recently came to a conclusion. More recently, the State Department and USAID were instrumental in providing the Department of Energy with $200,000 to have us assist the Government of Angola in the development of a comprehensive national energy strategy that would focus on the provision of energy services to the Angola domestic economy.

So these I think are two very good examples of how we work cooperatively together.

Senator HAGEL. Thank you.

Mr. Brodman, are there fundamental differences that exist currently with these gulf country oil-producing areas, where the countries are more specifically tailored to their own traditions, their own specific business dynamics, resource development, versus a more regional concept of development, of not just the resources but of the stability in general of the region?

Is there developing or has there been developing or yet to develop that kind of a regionalization appreciation, understanding, between governments, that they are not isolated, that if two or three of their neighbors are not doing well and unstable then that is going to affect them? I know Mr. Simons is going to talk about that, as he referenced the compact that was signed in Sea Island, Georgia, at the G–8 conference, which relates to my question. So I will ask Mr. Simons the same question. Thank you.

Mr. BRODMAN. Mr. Chairman, I think we have seen very, very positive developments on exactly that front in the last 10 years, but more so in really the most recent few years. In the past, you know, the bulk of the investment really going on in exploration and development in Africa was in one country, in Nigeria, and Nigeria really was leaps and bounds ahead of its neighbors in terms of understanding how to deal with the multinational oil companies, how to negotiate contracts, how to play the international oil development game.

Here I am speaking in general terms and I know Nigeria has not exactly been a model of stability over the years and it has had many successive military governments prior to the current democratic government and it has had a fairly rocky history.

But in the recent past we have seen a number of countries really step up and resolve their territorial disputes with their neighbors. I am thinking here of Gabon and Equatorial Guinea in particular. I think just earlier this month Gabon and Equatorial Guinea resolved a longstanding territorial dispute in offshore waters that had been stalling and delaying exploration and development in that area for a considerable period of time.

We have seen the same happen in Nigeria and Cameroon. We see the same kinds of thing happening I think with Equatorial Guinea and Cameroon as well. This kind of gradual encroachment, I guess, of a realization on the part of the countries that they are a region, that they can work together and cooperate for their own best long-run interests, is something that is taking foot there very positively.

Another important example that I see developing is the example that is being provided by the joint development zone between Sao Tome and Principe and Nigeria. The joint development zone is basically this territorial waters between Sao Tome and Principle and Nigeria where there are no clearcut boundaries. It is expected that it has large-scale—or the oil resource potential of that disputed territory, if you will, is considerable.

We have seen Sao Tome, which has no experience in dealing with the multinational oil companies in developing resources, enter into a pact with Nigeria whereby they will jointly work with them. They have jointly created a board consisting of both Nigerians and Sao Tome officials, that will proceed with the development of the oil resources in this joint development zone. And it is a very logical step forward because it will allow the officials from Sao Tome to learn from their Nigerian counterparts as they go forward and develop this joint zone.

I think the lessons they can learn from that experience they can then bring home and apply to their own, their own development in their own territory, outside of the disputed area.

But there are a number of other examples that we see happening. In Equatorial Guinea, for example, Equatorial Guinea hopes to develop an LNG facility in Equatorial Guinea that will take gas from several of the surrounding countries. The gas resources in a number of the surrounding countries in and of themselves are not enough to sustain investment in a major LNG port for export. As a matter of fact, some people believe that the gas resources in Equatorial Guinea by themselves may not sustain a large-scale LNG facility for a long time. But the countries of the region have gotten together. They have decided on an operator. The operator, Marathon in this case, plans to build an LNG facility that will purchase gas from Cameroon, gas from ExxonMobil, and gas from other producers in the region and bring it all back to Equatorial Guinea for processing through this one LNG facility and sale to the world market.

So we see very positive signs along that score, sir. These are things that we would like to encourage.

Senator HAGEL. Mr. Simons.

Mr. SIMONS. I would certainly associate myself with all of John's examples. They are impressive in the African context. I would just cite two other areas that I think merit mentioning. First is the Chad-Cameroon pipeline, where you have a landlocked country that really is investing its entire economic future in the political viability of its neighbor. It is a very impressive arrangement that we hope again will be a model.

The second area, is a little out of economics and is more in the security area. The work that ECOWAS has been doing lately on conflict management is very impressive. They have set up a small defense security staff. They have successfully deployed, as you know, to Cote d'Ivoire and Liberia in the last couple of years. We have been able to get some other Western donors to help build capacity. We are also putting a small amount of our own money into their operation. We have been able to make their headquarters a hub for peacekeeping training, and this is something that certainly 10 years ago would not have been imaginable.

Senator HAGEL. Thank you.

Let me ask each of you about terrorism. First, Mr. Brodman, have we changed in any significant way our U.S. strategic energy policy since September 11, 2001? Obviously we have all recalibrated to some extent, which affects all our policies, but especially international policy. But has it been significant? Where has it been significant? How has it made it more difficult in order to fulfill, accomplish a number of the areas that you talk about?

Then I would ask Mr. Simons the same question, only on a little broader scale, specifically tailored to the West Africa region; and more specifically for each of you, the Gulf of Guinea energy countries that we are talking about here—threats and then how we are dealing with those in our policy? Mr. Brodman?

Mr. BRODMAN. Clearly the war on terrorism has highlighted the key security concerns that American companies and Americans working abroad are likely to encounter in many hostile parts of the world. This has affected the energy industry considerably in many places, and it has even in some cases I think at this point placed in doubt their ability to maintain a significant footprint in some countries.

There are clearly risks to Americans living abroad in some countries that companies must have a corporate policy for dealing with. When lives are at stake, I think corporations will always tend to be risk-averse and will do the most they can to minimize the danger to their personnel, even if that means withdrawing them from the country and shutting down operations. That is kind of an extreme case.

The other things we have seen in terms of impacts of the war on terrorism I think have to do more with economic costs that the companies will incur by exploring and developing energy resources in other countries. Clearly the higher costs of security will have to be factored into all their investment decisions from here on out. Just the logistical cost and the extra personnel and things associated with providing security, with hardening your facilities, with building redundancy into the key infrastructure and everything like that to deal with potential terrorist threats is a significant additional burden that the industry has to factor into its calculations.

When it comes to West Africa per se, clearly there are terrorist threats that exist in West Africa. I think we have been fortunate to some extent in that many of the oil-producing facilities in West Africa are offshore, they are far from large population centers, they are geographically isolated, such as those in Nigeria in the Niger Delta, in places that are difficult to reach.

While that in and of itself may provide a certain measure of security to the Americans and the American firms working there, it is by no means a simple proposition. The fact that these facilities are isolated can make them targets of opportunity as well. These are issues that I think the industry is beginning to address. I think we have a long way to go as far as trying to deal with all the threats that might possibly arise and to handle all the issues that could come up. But I think we are making some progress.

Senator HAGEL. Thank you.

Mr. Simons.

Mr. SIMONS. I think John summed it up pretty well. I would perhaps make a couple of observations just to put John's comments in some context.

I think we have a whole set of physical security issues, homeland security issues that host countries face, that industry faces, and that we face here at home. We have an unanswered question, which is how many of those external homeland security types of questions, physical security for soft targets kinds of questions, how much of that is the responsibility of the United States, how much of it is the responsibility of the private sector, and how much of it is the responsibility of the host governments.

I think that whole set of issues we are starting to come to grips with. I do not think it is really Africa-specific. It is worldwide. We are addressing these questions in the Middle East, in Southeast Asia, as well as in Africa. But it is a question that we need to take a good hard look at and begin to define where our involvement and our responsibility begins and where it ends.

So that is one set of issues. A second set of issues, which John has also alluded to, involves country risk. To what extent has the war on terrorism heightened overall perceptions of the risks of operating in certain countries, which are not really soft target countries but might be hard target countries, where you would have a real threat of a terrorist incident against a facility in a country.

I think that these issues taken together may be having some impact in terms of the marketplace, in terms of the world market, oil markets, short-term markets as well as long-term investment markets. So this is to some extent a price of doing business post-9–11. We talk with the companies about this, we talk with host governments. We have discussions inside our own executive branch, and it is something that we are sorting through.

Senator HAGEL. Thank you.

How would you rate—I know this is imperfect, but give me some answer to the question, the terrorist threat in the area that we are talking about? High? You must be aware always, as you have noted. Give me some calibration of that issue in the area we are talking about? We have so far seen not a great deal of terrorist activity in those areas. But because as we develop those areas and see them develop into major energy centers, they represent newer targets, bigger targets, more significant targets.

Mr. BRODMAN. I do not know if I—I am not going to give you a numerical rating on a scale of one to ten or anything like that, Mr. Chairman, if you do not mind. But in the case of West Africa, it has been historically here an inherently conflicted region. Religious conflicts; there are ethnic conflicts; there are conflicts between the countries. And within individual countries, as you know, the history of the region, there are relatively—there are some positive examples of political stability, but there are probably more pronounced examples of political instability.

While we think the region is making progress as a whole and, as you say, a lot of the security concerns that I think these companies—or the countries and our companies that are operating there have experienced, they really come more from these sources of conflict that are inherent within the region than they have from terrorism themselves. But the fact that they are politically unstable places and the fact that there already are existing other types of conflict I think makes these countries a potential breeding ground for future terrorism activity.

So to what extent are the terrorists there and active today? I really do not know. To what extent are terrorists really looking at these conflicted areas as possible places to carry out terrorist activities in the future? I do not know either. But it would seem to me that, because the countries are weak, because they are inherently conflicted the way they are, that they do become fertile ground for potential future terrorist activities.

Senator HAGEL. Thank you.

Mr. Simons.

Mr. SIMONS. I think it is important also to note that the problems that we have seen to date, which have largely been concentrated in Nigeria, where we have actually had supply interruptions because of different internal conflicts, have largely been local in nature. They have had to do with internal problems, ethnic problems, and their solution is a combination of development, internal security, as well as law enforcement.

I do think that to the extent that you have a weak law enforcement base in a number of these countries that you are vulnerable as a soft target for terrorists to come in. For the time being, though, I do think that it is the weak law enforcement structure and some of the other unresolved issues with respect to how resources are divided within the countries, which can be attacked more directly by this transparency process.

I think the countries have to get that right. They also have to get moving on the law enforcement side as well, where they have substantial weaknesses. So there is currently a vulnerability to terrorism, but the immediate challenge I think is more on the transparency side.

Senator HAGEL. Thank you.

Gentlemen, you have been most helpful. The committee appreciates your testimony and your forthright answers to the questions. What we will do is keep the record open for a couple of days. I know some of my colleagues had wanted to be here. We have Dr. Rice coming here in about an hour actually to a different room. So there were other members of the committee who wanted to ask some questions and we may send those along for your answers. So we will keep the record open a couple of days.

But thank you very much. Please give our thanks to your colleagues who do such good work for our country. We appreciate it. Thank you.

If the second panel would step up when we have the table cleared, we will get started. Thank you.

Gentlemen, welcome. As you know, I have introduced each of you. I see you are well fortified with water and if you need more we will pour more water for you. So thank you again for coming up this afternoon and presenting your thoughts on an important issue for the future of this country, the future of the world.

So I will get started. We will ask each of you to present your testimony. As you have noted, I have already stated you can do that any way you like. Anything you brought along in formal remarks, additions, insertions, will be all included in the record. So thank you again.

Mr. Goldwyn, I will reintroduce you and you can begin: Mr. David Goldwyn, Founder, Goldwyn International Strategies, Washington, DC. Sir, thank you.

STATEMENT OF DAVID L. GOLDWYN, FOUNDER, GOLDWYN INTERNATIONAL STRATEGIES, LLC

Mr. GOLDWYN. Thank you, Mr. Chairman. It is a pleasure to be here again and an honor to speak to you and this committee. This committee's sustained interest in the issue of energy security has helped keep this issue on the agenda with the executive branch and so I commend you for your sustained interest.

Oil supply from the Gulf of Guinea is important to U.S. energy security, but the supply from that region in my view is vulnerable to a disruption from both internal and potentially from external threats. We do not have an energy policy that is strategic in any sense, not nationally and not in the Gulf of Guinea. As a government, we are not organized to address either the chronic causes of the unrest in that area or the acute threats of crime, privacy, and possibly terrorist attacks on the energy infrastructure.

I have had the opportunity, as you have noted to some of the other witnesses, to study these issues closely in concert with my good friend and colleague and fellow witness Dr. Stephen Morrison. We have done two studies this year for CSIS on oil in the Gulf of Guinea. Dr. Morrison is going to talk about our recommendations for addressing the region's chronic problems in his testimony. I am going to talk about what energy security means in a globalized market, why the Gulf of Guinea is critical to U.S. energy security, what is at risk, and what we ought to do about it.

In terms of energy security, energy security is more than just access to diverse, reliable, abundant and affordable supplies of energy. Diversity is important, but the real threat to our economy is price volatility, because rapid spikes in oil prices cause recessions, drive up inflation, make our industries uncompetitive, and create job loss. And oil prices have been highly volatile in recent years, swinging from $10 to $40 from 1998 to now, because we are more and more dependent on nations that are less than stable themselves.

Conflict among nations, when you look back 20, 30 years—the Iran-Iraq war, Iraq's invasion of Kuwait—caused major disruptions in supply. Internal conflict does this as well. The Iranian revolution, the 2003 strike in Venezuela, and strikes in Nigeria are examples of this. So we cannot deter these kinds of disruptions with strategic stocks. That was our old energy security policy, deter an embargo by having strategic stocks. For the new threats we need conflict prevention and diplomacy.

The newest threat we face, of course, is the potential of a terrorist attack on oil installations. We have seen attacks in Iraq by insurgent forces and we have seen them in Saudi Arabia, reportedly by al-Qaeda. In terms of the overall market, we have rarely been more energy insecure than we are today. The global market itself is stretched to capacity. Prices are at nearly $40 and, due to a deliberate OPEC policy, there is barely 600,000 to 800,000 barrels a day of excess capacity, depending on whose statistics you believe.

So if there is a supply disruption—a strike in Nigeria or a disruption in Venezuela or Iraq, much less something happening in Saudi Arabia—we have no cushion. Commercial inventories, which is what we would draw on first, are also at historic lows. So we are in no position to endure a supply interruption from the Gulf of Guinea today.

But the threat of having that disruption, as I said, is real. And if we want to have energy security at home, we need to focus on promoting stability in the nations we rely on and help them protect the infrastructure that delivers the oil and gas we depend on.

As many of the witnesses have said today, the nations of the Gulf of Guinea are and will remain critical to U.S. energy security. I will not torture you with the statistics since we are all working off the same numbers, but the Gulf of Guinea provides roughly 14 percent. It is not the Persian Gulf, but the marginal barrel sets the price of oil and if these countries exports go off the market the price shoots to 50 bucks. That is why they are important.

In the future they are going to be important as well. OPEC productive capacity really has not changed, but the Gulf of Guinea next year will provide the second largest increase of oil supply in the world. Russia will provide the most barrels. The Gulf of Guinea is going to be No. 2. OPEC is holding fast. So the Gulf of Guinea is important and if all goes well—this is what we are talking about today, will all go well—we could get to 20 percent of imports from this region in 20 years.

The reasons why increased exports from the Gulf of Guinea are important is well known—they make us less dependent on Middle East crude. And all of these nations except for Nigeria are non-OPEC nations, so that they provide some competition to OPEC in terms of driving down the price of oil.

It is important to note for a trade subcommittee that the reason these countries are growing is because they are open to Western investment. They provide a competitive rate of return, about 15 percent or so, and they have attracted $30 to $40 billion or will attract $30 to $40 billion of investment this decade. I think it is actually about 40 percent American and about 60 percent European investment.

But it is the very openness of these nations to Western investment that also makes them a potential target for terrorism. And of course, it is important to note that we have more than oil at stake. There are thousands of Americans who work in this region and our taxpayers, through investments in companies, have billions invested there.

The geological prospects are good in the region, but the risk of an oil disruption is high for a variety of reasons. One is rising violence. The unrest in the Niger Delta is unresolved. Political violence is often directed at foreign oil workers and facilities. Foreign oil workers have been held hostage for weeks at a time. Just last April, seven people were killed, including two Americans who worked for ChevronTexaco. The risk of onshore violence is reportedly leading some companies to consider even selling off their Nigerian operations.

Labor strikes are another major threat to security of supply. In March 2003, strikes led to 800,000 barrels of oil coming off the market. That is a lot of oil. Earlier this month, Elf Nigeria suspended 235,000 barrels over fears that a threatened strike would become violent. That was 10 percent of Nigeria's oil supply. There are strikes threatened against Shell, which produces 950,000 barrels a day, and ExxonMobil, which produces 500,000 barrels a day.

I do not profess to be an expert on the labor issues that are involved, but from a consumer perspective we can look forward to more disruptions.

Piracy and theft are another rising concern. CSIS has documented there are organized thefts of between 100,000 and 200,000 barrels a day of oil in the Niger Delta. That is about a billion dollars in cash disappearing. It reportedly involves armed militias and criminal groups. So we have got two worries. One is we do not have the oil. Second is what are they doing with the money?

The Nigerian Government is working hard to combat piracy, but frankly they are having modest success. In terms of the overall issues, the government has no credible plan to foster development and reconciliation in the Delta. So we are likely to continue to see oil disruptions from Nigeria until this problem is addressed.

There are problems in the rest of the neighborhood as well. Sao Tome, while not yet an oil producer, saw a coup attempt against its President in July 2003, and criminal networks have already appeared there looking for the spoils which are yet to come. Equatorial Guinea has faced two coup attempts against its President in the past 8 months. The one in March involved a well-financed mercenary group possessing somewhere between $10 and $15 million that was arrested while its plane was refueling in Zimbabwe.

The threat of terrorism also looms over the region. The 2003 al-Qaeda attack on the French oil tanker in Yemen and, more relevant to this area, Osama bin Ladin's pronouncement referring to Nigeria as a target in February 2003 both raise serious concerns about security in the gulf. We do not know how serious this threat is, but we do know that the forces of the Gulf of Guinea states do not have the capacity to protect their oil rigs and facilities. It is a soft target for a terrorist group that is willing to attack. So hardening these targets I think is at least a prudent deterrent.

So what should we do? I think the most urgent task for the United States in the Gulf of Guinea is to fashion a strategic policy that draws on our diplomacy, our influence in international financial institutions, our aid, and our military relationships, all to enhance the stability of these nations. As I detail in my written testimony, I think the United States has had no serious engagement with these countries on energy security issues in at least the last 3 years.

As part of a comprehensive strategy—and we need to wrap this all into a comprehensive strategy—I think the United States should lead an urgent effort to help the countries of the Gulf of Guinea protect their maritime territories and enhance onshore policing and security. In the long term, the United States and others can help train local personnel on how to secure these installations themselves and to do so in a manner that respects human rights. But in the short term they are not going to be able to fulfill this task, and I think that means the United States should enhance its own presence in the Gulf of Guinea, including maybe an on-the-ground training center, begin direct security consultations with the region's governments, and organize an equip-and-train effort to establish a regional maritime security force.

The U.S. European Command has begun this process with periodic visits by carrier groups and visits by senior personnel. EUCOM's Africa Coastal Security Program I think is a good start. But there is really no indication that EUCOM has support from the

Department of Defense or the Department of State or that they have been given the resources to lead.

I would urge the U.S. Government to create a decidedly regionally focused and regionally managed program. President Obasanjo has talked about a regional security commission to his neighbors in Equatorial Guinea and Sao Tome. I do not think it is actually formed. The Government of South Africa is supportive of a regional program also and they have proposed a binational commission with Equatorial Guinea.

The United States ought to use its resources to work with all the region's governments, help them pool their physical assets, create some common security response doctrines, and organize them into a cohesive group. An effective regional program will reduce tensions among the Gulf of Guinea states, and these tensions are quite ample with different countries, by focusing them on sharing threat intelligence, promoting common strategies, conducting confidence-building measures, professionalizing training of security forces, and ensuring that their conduct respects human rights norms.

The United States does not need to do this alone. We can and we should engage other nations in our effort to improve security in this part of the world. The African Union, the European Union, ECOWAS, and the United Kingdom can all be important allies in this effort. As I said earlier, European investment in the Gulf of Guinea is significantly greater than American investment.

The United States can contribute leadership and training through the IMEP program, the International Military and Education Program, and our focus should be counterterrorism, counternarcotics, and customs enforcement, all with a human rights training component.

It is important to take a couple seconds on human rights here, because the United States historically has been very cautious about providing security assistance to countries which have committed human rights violations or that misuse their national wealth, and there are a lot of those countries in this region. We have been loath to issue licenses to some of these countries even to purchase training by U.S. trainers because we want them to do other things first.

But I think in this case the benefits of professionalizing their forces and offering them exposure to human rights training outweigh the risks. I think a lot of these countries are going to procure the help they need anyway, but they might do it from sources which are not interested in having a human rights training component to the training that they get. I think if the countries are wealthy they ought to be paying for this themselves. The U.S. does not need to pay for it. But the U.S. ought to be able to provide them the expertise.

In conclusion let me say that I think the nations of the Gulf of Guinea have the potential to enhance U.S. energy security and global energy security by delivering new supply to the market. I think the United States can promote stability by addressing both the chronic problems of governance which people talk about and also the acute threats posed by the fact that they have very weak security forces. I hope that this committee's sustained interest in these issues will help us produce such a policy.

Thank you.

[The prepared statement of Mr. Goldwyn follows:]

PREPARED STATEMENT OF DAVID L. GOLDWYN

Mr. Chairman and Members of the Committee, it is an honor to speak with you today about the importance the Gulf of Guinea to U.S. energy security.

We do not have a strategic energy policy in force in the United States today, but we need one. Today I will address briefly what energy security means in a globalized market, why the Gulf of Guinea is critical to U.S. energy security, why the stability of supply in the Gulf is at risk, and what we should do about it.

I have had the opportunity to study these issues closely, in concert with Dr. Stephen Morrison, my colleague and fellow witness today. I co-authored two studies on this subject this year. The first was "Promoting Transparency in the African Oil Sector: A Report of the CSIS Task Force on Rising U.S. Energy Stakes in Africa" (CSIS: March 2004) with Dr. Stephen Morrison. The second was "Crafting a U.S. Energy Policy for Africa:" in *Rising U.S. Stakes in Africa: a Report of the Africa Policy Advisory Panel* (CSIS: May 2004).

These studies show that the nations of the Gulf of Guinea will enjoy an enormous increase in government earnings from oil revenue between now and 2010. Nigerian oil earnings will exceed $110 billion. Angola's could reach $40 billion. Equatorial Guinea could earn $10 billion. These revenues give these countries a chance to achieve significant economic growth in the years to come, but they also demonstrate the importance of their energy resources for global oil market. This wealth can provide a platform for expanding prosperity in the region or it may encourage more rent seeking and destructive competition for a share of the new wealth. These studies provide detailed recommendations for enhancing U.S. energy security in the Gulf of Guinea. The recommendations focus on the need for much higher level U.S. diplomacy in the region, using our limited leverage to promote transparency and better governance by the producing nations, and building the administrative capacity of the region's governments to promote internal development as well as the development of their natural resources. I will draw on these reports for much of what I have to say today.

ENERGY SECURITY IN A GLOBALIZED MARKET

Let me take a moment first to talk about what I mean by energy security. U.S. energy security depends on access to diverse, reliable, abundant and affordable supplies of oil and gas. But energy security today means more than access to supplies of oil. In a global market, the United States can buy the supply it needs by outbidding other consuming nations. The greatest risk to our energy security today is the volatility of the price of oil.

When prices rise rapidly, as they have this past year, American consumers and industry cannot adjust quickly. We cannot easily change our cars, stop commuting, switch to other fuels, or move to warmer climates. We can reduce our vacations, reduce discretionary spending or cut back our production of products when fuel costs make them uncompetitive. It is no wonder that despite our significant increases in energy efficiency, nearly all of the recessions we have suffered over the past half century have been preceded by oil shocks.

We have seen unprecedented price volatility in the past six years. Prices have swung from $10 to $40 between 1998 and 2004. Prices are volatile because too many producers are unstable. Look back thirty years and ask what caused the greatest price spikes, spikes that sent the U.S. economy into recession or hurt our consumers. The answers are war, civil unrest, or revolution, not embargoes. The major disruptions were the Iranian revolution, the Iran-Iraq war, the two Persian Gulf wars, the Petróleos de Venezuela (PDVSA) strike of late 2002, which removed 3.1 million daily barrels from the global market during over 2 months and, to a lesser degree, the 2003 strikes in Nigeria which removed 800,000 barrels of oil from the market. The newest threat of course is terrorism against oil installations. The very fear of a terrorist attack on Saudi Arabia, no longer a hypothetical potentiality, adds several dollars to today's oil prices.

Our old system of energy security does not address today's threats. The old system was a system of deterrence—if we built our reserves large enough, we could deter an embargo. After September 11, the concept of security has dramatically changed, and this affects the oil industry. Threats are no longer localized, intermittent and manageable. Our paradigm for oil security has to be modified. Today, the U.S. invests approximately $50 billion per year in the security of the Middle East and only very modest amounts to directly secure energy infrastructure in other critical regions. Neither the U.S. nor the producers we rely on in many parts of the world are deployed to protect this strategic commodity. We need to rethink our policy.

These problems which give rise to oil supply disruptions are chronic in the Gulf of Guinea. Unrest in the Nigerian delta, piracy in its waters, coups in Equatorial Guinea and Sao Tome and Principe, strikes protesting rationalization of fuel costs are all derived from decades of corruption, poor governance, under development and neglect. We must use diplomacy, training, trade and the creative intervention of the international financial institutions to help these nations build stability by better governance. We need to empower our military to help build up local forces that can combat terror and crime while respecting the rights of their citizens. A strategic energy policy would marshal these foreign policy tools to enhance our energy security, while also addressing our demand for hydrocarbons. While we have such tools, we so far lack the vision to use them effectively. We have not empowered or directed our senior foreign policy or security officials to make this a priority. In the Gulf of Guinea, where governments are weak and deeply in need of reform, we must develop new mechanisms to address their unique needs and limited capacity.

THE GULF OF GUINEA IS CRITICAL TO U.S. ENERGY SECURITY

The nations of the Gulf of Guinea are and will remain critical to U.S. energy security. They are a key contributor to the diversity of global oil supply. In this case I refer to Nigeria, Angola, Chad, Equatorial Guinea, Gabon, and Sao Tome and Principe. Today, oil exports from the countries in the Gulf of Guinea provide us with 13-14% of the oil we import. While OPEC countries cut production, countries from the Gulf of Guinea provided one out of every four barrels of new oil that came on the market last year. This Gulf is much closer to U.S. refineries than the Middle East, and we have good relations with all of the exporting countries. In the future, if the investment and security climate remains stable, the U.S. could draw 20% of its imports from this region. Their share of global oil supply will rise from 4% this year to nearly 6% by 2007. Increased exports from the Gulf of Guinea allow the U.S. to reduce our dependence on Middle East crude. Furthermore, the non-OPEC nations in this area—all of them except Nigeria—provide a counterweight to OPEC's monopoly power.

The region is a rising gas power as well. If current projects under development are brought to fruition, Nigeria, Angola and Equatorial Guinea will increase their liquefaction capacity from 9 million tons (M/T) per year to nearly 40 MT per year. These nations are growing as suppliers because they have opened their economies to Western investment. While most of the world's oil reserves are closed to international oil companies, the Gulf of Guinea has offered nearly 15% returns on investment. These terms (and high prices) will attract $30-$40 billion in investment this decade. The very openness of these nations to Western investment can make them a potential target for terrorism.

Nigeria and Angola are the region's most important suppliers. Nigeria produces 2.12 million b/d and exports 1.85 million b/d. It provides 8.25% of U.S. imports and it is planning to expand to 4 million barrels per day by 2009. Angola produces 900,000 b/d and exports 866,000 b/d, providing 4.6% of U.S. imports, and is planning to reach 2 million barrels per day by 2009. Angola is our ninth largest supplier and our third largest non-OPEC supplier outside of the Western Hemisphere and is expanding in oil and gas as well. The other countries in the Gulf are significant as well. According to EIA estimates, in 2003 Cameroon, Chad, Equatorial Guinea and Gabon exported approximately 500,000 b/d in aggregate, with 221,000 b/d going to the U.S. Chad is beginning oil production this year. Equatorial Guinea will grow as a supplier of gas and light sweet crude for U.S. markets. Gabon and Cameroon are on the decline.

From a geological and investment perspective, the regions' prospects are quite bright. New technologies, competitive investment frameworks and the availability of reserves for exploration by international oil companies have produced outstanding results. According to a study by PFC Energy, the estimated reserves of the region doubled in the last decade. Production rose from 2 million barrels per day to 3.5 m/bpd. Companies will invest between $30 and $40 billion in these nations in this decade. Much of this oil is the kind of low sulphur crude oil that U.S. refiners need to produce gasoline that meets our environmental requirements. By 2010, these nations could add 2-3 million barrels of oil per day to global oil supply, an increase from its 3.4 million barrels to 7.4 million.

SECURITY OF SUPPLY FROM THE GULF OF GUINEA IS AT RISK

While the region's geological prospects are good, the risk of an oil supply disruption from the region is rising from internal and external sources. We are in no position to endure a serious oil supply disruption from the Gulf of Guinea today. The global oil market is stretched to capacity. Prices hover at nearly $40 West Texas Intermediate. Due to deliberate OPEC policy, there is barely 1.4 million barrels per day of excess capacity available to redress a supply disruption. Nearly all of that spare capacity is in Saudi Arabia, and it is not enough to substitute for Nigeria's exports, much less a disruption from Venezuela or Iraq. Commercial inventories are at historic lows as well.

We are not ready for trouble, but trouble is on the horizon.

Nigeria faces the greatest challenge, from rising violence, strikes, piracy and potentially terror. The unrest in the Niger Delta region remains unresolved. Political conflict is often directed at foreign oil workers and facilities. Foreign workers have been held hostage for weeks at a time. Sabotage of oil pipelines has killed hundreds of Nigerians. Two ChevronTexaco oil workers were killed in the town of Ogheye last April. The risk of onshore violence is reportedly leading some international companies to consider selling off their Nigerian operations. Shut-ins due to security risks will persist absent relief from the unrest in the Delta.

Strikes are another major threat to security of supply. In the prelude of the national elections of 2003, there was a sharp escalation of inter-ethnic violence that took 800,000 barrels per day off the market, adding pressure to already high oil prices. Production was shut down for months for security reasons. In early July of 2004, Elf Nigeria faced a shutdown over fears that a threatened oil union strike could become violent. Elf suspended pumping 235,000 barrels of oil—10% of Nigeria's production—and 187 million cubic feet of natural gas daily. More strikes loom on the horizon. Workers unions for Shell operations started a two-day warning-strike that opposed a restructuring plan for the company which would cut jobs by 30%. Shell is the biggest foreign investor in the country with 950,000 barrels daily. Similarly, ExxonMobil received a 21-day ultimatum to reverse the company's "predilection for hiring foreign employees." The company produces 500,000 barrels daily. Additionally, labor unions, demanding a setback on the recent rise in gasoline price, are threatening to start a nation-wide strike in the coming days.

Piracy and theft are another rising concern. As documented by CSIS, the organized theft of 100,000 to 200,000 barrels per day in the Niger Delta, reportedly involving armed militias and criminal groups that use some of the proceeds to acquire weapons, is an indication that oil mismanagement can threaten regional stability. The coastal piracy in this country is second globally only to the piracy in the Moluccas. The Nigerian government is working hard to combat piracy but with modest success. The Government has no credible plan at this time to foster development and reconciliation in the region, and rebel groups have taken advantage of this situation. Oil interruptions from Nigeria are likely to continue or worsen unless these issues are promptly addressed.

Sao Tome, while not yet a producer can begin getting oil revenues in 2007. The country saw a coup attempt against its President in July 2003. The coup created severe doubts about the stability of the country's regime and enhanced the risk associated with investing in Sao Tome. The situation can threaten the exploitation of this nation's oil wealth, which is currently estimated at 4 billion barrels, but might prove up to 10 billion barrels. In a country with a population of 140,000, and virtually no administrative capacity, the early appearance and growth of criminal networks make the security a top priority.

Equatorial Guinea has faced at least two coup attempts against President Obiang in the past eight months. Last December a clan member was caught escaping the country with $400,000 and a brother of the President mysteriously drove off a bridge. In March a well-financed mercenary group (with an estimated $10-$50 million at its disposal) was arrested while their plane was refueling at the airport in Zimbabwe.

The threat of terrorism also looms over this region. The 2003 Al Qaeda attack on a French oil tanker in Yemen and Osama Bin Laden's pronouncement referring to Nigeria as a target in February 2003 have raise serious concerns about security in the Gulf of Guinea. We do not know how serious this threat is. But the naval forces of the West African states do not have the capacity to protect oil rigs and facilities. The area is a soft target for any terrorist group willing to attack. Hardening these targets is a prudent deterrent.

POLICY OPTIONS TO ENHANCE U.S. ENERGY SECURITY

Most of the region's problems are chronic. My colleague Dr. Morrison will address how these chronic problems of poor governance threaten political stability of the states of this region and how a clear U.S. policy can use pressures and incentives to address these root causes and help nascent reform movements in Nigeria and Angola to succeed. There will be no sustainable solutions to instability in the Gulf of Guinea without fiscal transparency and better governance.

Yet some of the Gulf's problems are acute. The rise of criminal syndicates in Nigeria, the threat of terrorism in Nigeria, the vulnerability of offshore oil facilities in Angola, Nigeria, Equatorial Guinea are urgent concerns. The U.S. and host country personnel who operate these facilities are at risk as well as the oil and gas supply they deliver.

The most urgent task for the United States is to fashion a strategic policy that draws on our diplomacy, our influence in international financial institutions, our aid and our military relationships to enhance the stability of these nations. We have had no serious engagement with the region on energy security issues. We have had one U.S.-Africa Energy Ministerial in four years. The U.S. Energy Secretary has not yet visited the Gulf of Guinea. We have no regular bilateral talks with these countries. We have no real funding or program behind our promises to support capacity building. We no longer have an energy attaché in Nigeria. We have no funding for debt relief for Nigeria.

The CSIS Task Force and the Africa Policy Advisory Panel both recommended appointing a Special Adviser to the President and Secretary of State for African Energy Diplomacy to forge and lead this policy. Dr. Morrison will address this and other recommendations in more detail.

With billions of U.S. investment, thousands of U.S. workers on the ground, and strategic supplies of energy at stake, the U.S. should also lead an urgent effort to help the countries of the Gulf of Guinea protect their maritime territories and enhance on-shore policing and security. In the long term the U.S. can help train local personnel how to secure oil installations themselves in a manner that respects human rights. In the short term the U.S. should enhance its own presence in the Gulf of Guinea and begin direct consultations with the regions' governments and an equip and train effort to establish a regional maritime security force.

The U.S. European Command has begun this process with periodic visits by a carrier group and senior personnel through the Gulf of Guinea and its proposal for Coastal Security program. It is unclear if they have been given the resources to carry this out, or been given support by the Departments of State of Defense. They are clearly the source of leadership on this issue. I would urge the U.S. government to create a decidedly regionally focused and regionally managed program. President Obasanjo has proposed a regional security commission to neighbors in Equatorial Guinea and Sao Tome and Principe. The government of South Africa is supportive of a regional approach as well. The U.S. should use its resources to work with these local governments, help them pool physical assets, and conduct a regional equip and train effort. An effective regional program will reduce tensions among the Gulf States—which are ample—by focusing on sharing threat intelligence, promoting common strategies, conducting confidence building measures, professionalizing the training of security forces and ensuring that their conduct respects human rights norms. The U.S. does not need to do this alone; we can and should engage other nations in our efforts to improve security in this part of the world. The African Union, the European Union, ECOWAS and the UK can all be important allies in this effort.

The U.S. can contribute leadership and training through the International Military Education and Training (IMET) program. The focus of U.S. training should be counterterrorism, counter-narcotics and customs enforcement efforts. The U.S. has rightly been cautious about providing security assistance to countries which have committed human rights violations and countries that misuse their national wealth. We have been loathe to issues licenses for U.S. trainers. In this case I would argue that benefits of professionalizing these nascent forces, and offering exposure to human rights training, outweigh the risks. These countries may procure the help they need from sources unconcerned with human rights training. The U.S. should ease its licensing policy to permit the nations of the Gulf of Guinea to purchase U.S. training where needed. Wealthy nations should procure their assistance on a reimbursable basis.

CONCLUSION

The nations of the Gulf of Guinea hold the potential to enhance U.S. and global energy security by delivering significant new supplies of oil and gas to world markets. These supplies can help moderate oil prices and help insure the U.S. against political instability in the Middle East. But the nations of the Gulf of Guinea can just as easily make oil prices more volatile if internal instability leads to further oil supply interruptions. U.S. policy can promote stability by addressing both the chronic problems of poor governance and misuse of oil wealth and the acute threat posed by weak security forces. To succeed, such a policy must be strategic, well resourced, and backed by high level diplomacy. I hope this Committee's sustained interest in these issues will help produce such a policy.

Senator HAGEL. Mr. Goldwyn, thank you.
Dr. Morrison.

STATEMENT OF J. STEPHEN MORRISON, PH.D., DIRECTOR OF AFRICA PROGRAMS, CENTER FOR STRATEGIC AND INTERNATIONAL STUDIES

Dr. MORRISON. Thank you, Senator Hagel, and thank you for the chance to be here today.

I want to commend you for your leadership on this issue. I know you are taking a special interest in the question of maritime security in this zone, and I think I will start out with some quick comments in support of the concluding remarks that David provided around the notion of a Gulf of Guinea maritime strategy.

Let me reinforce that there is a glaring vulnerability in the Gulf of Guinea, and it is a function of both unrivaled piracy levels in Africa—in fact, the piracy that you see in the Gulf of Guinea is second only to the Malacca Strait in Southeast Asia. And this is inviting extensive illicit trafficking in weapons and drugs, illegal immigration, and it potentially invites terror attacks against an energy infrastructure that is rapidly developing in this region, but which is not constructed with any serious sabotage threat in mind.

It is very much in the U.S. interests to take a higher level of engagement in this regard. I want to reinforce the remarks that David made about the threat that comes out of the theft or bunkering of oil in the Niger Delta, which is dependent on transit through the waters of the Gulf of Guinea. We are talking about 10 percent or more of production, onshore production in Nigeria, with a value of well over $1 billion per year. This is a huge loss. It is a huge boon to criminal activities and it could continue to rise, and it permeates the entire region in terms of the criminal networks that grow up around it. This oil shows up supplying refineries and traders all over the region and shows up in Europe as well.

If we were to take a higher level of engagement in trying to build maritime security in the Gulf of Guinea, we could begin to curb piracy and shrink the bunkering or theft of oil. We could improve the oil production environment, encourage much greater regional integration, and deter terror and sabotage while protecting American citizens and American property.

The cost is not prohibitive. A sensible, aggressive, robust American program could run at $10 to $20 million per year, with major gains for security in the area and for U.S. commercial national interests.

The gulf states themselves have signaled their strong interest in joining us in this regard and that is an important factor. Particularly Nigeria, Sao Tome and Principe, and Equatorial Guinea have been very overt in signaling their interest in partnering with the United States, and I think the other major states, such as Angola and Gabon, Cameroon, can also be brought into a discussion around these issues fairly easily.

If we are going to get serious about building a regional maritime security initiative in the Gulf of Guinea among these six states, I think it is very important that we make sure Angola is in that package.

What do we need to keep in mind? The first thing is we need to act very quickly and we have to act with a very real sense of realism about what is possible in what timeframe. We have to proceed on a long-term strategy of at least 5 years. Speed is essential because the environment today is receptive. If we wait much longer the surge of oil wealth is going to create new sets of incentives and distractions, and that surge of oil wealth is going to be fully upon us in the next 2 to 3 years.

Speed is also essential that we demonstrate concrete benefits to the states themselves and to Congress and to the administration and to others and that we minimize the distractions that will come as China, India, and others become a larger presence in this region. We have competitors in this region who are arguing a different strategy of protecting interests.

We have to be very realistic that we are starting with U.S. capacities on the security side, on maritime security, as minimal, at a minimal level. It is going to take some time to create the relationships and operational capacities. This is an environment with an exceptionally weak infrastructure and technical expertise. This is different from operating in the Caspian, and I think we need to bear that in mind. We have to make an investment for at least a full 5 years.

The second thing we need is a coherent regional partner. There have been early discussions among the six states around forming some type of body. I know the European Command under General Wald's leadership has taken some efforts to begin some early conversations. I think those conversations and that diplomacy should be intensified. We need a partner. The spirit is there today. The environment is receptive to doing that.

The third thing we need is more of an internal U.S. Government consideration, which today there is not an inter-agency operational plan for moving ahead in this regard. There are concepts, there are ideas that are very worthy, that need to be put into finer detail and vetted quickly through our system, costed out, and approved. This strategy is not simply a military strategy. This is a strategy that has to have a very heavy diplomatic component and it has to be backed by a strategy of putting pressure upon oil-wealthy governments, to offer them both incentives and disincentives to buildup the accountability and transparency within their systems.

Let me shift to what a governance strategy would look like. I will not go through all the policies, specific policies that are proposed in the task force report which we issued at the end of March, but I want to emphasize two points. One is we need a governance strategy that is sensitive to democratic process and respect of human rights and creating transparency and reform in the energy-rich countries in the Gulf of Guinea. This has to be enshrined as a top priority of U.S. foreign policy. It is not today enshrined as a top priority.

Second, in order to make it clear that this really is a top priority we need to appoint a special adviser to the President and Secretary of State dedicated to the concerns of energy in this zone of the Gulf of Guinea. I think there are very strong arguments for needing someone of this ilk with a strong mandate and with a direct authority vested from the President and the Security Council to be able to lead this effort within the region. This will guarantee that the diplomacy is carried forward in an adequate way. It will guarantee that we have coordinated the political, economic, military, and government policy of the U.S. Government.

I will not dwell on the other pieces, the specific policy initiatives that are laid out in our report. Let me close with a couple of specific comments on Nigeria. I argue in my testimony that any regional strategy for the gulf needs to give a very, very special priority to Nigeria because of Nigeria's scale, its complexity, and the dangerous mix that one sees there today. It is very close to the edge of disorder. It is emerging from years of misrule. It is engaging in bold experiments of reform in the management of Nigeria's oil wealth. It presents very stark risks and very alluring opportunities.

Yet our capacity today to shape events in Nigeria is exceptionally weak and I think needs to be corrected. I make the point that the high-level regular U.S.-Nigeria consultative mechanisms that were created in the late 1990s have been allowed to lapse. There have been some recent exceptions to that in consultations between Secretary Snow and his counterpart, Minister Ngozi. There have been high-level law enforcement negotiations or consultations.

But we need to really create something that is a routine high-level mechanism that covers multiple sectors and has predictability to it. We have no diplomatic presence in the north of Nigeria. Northern Nigeria arguably is among the most dangerous places in Africa at the moment. It is where the strongest terrorism threat resides and it is a place where we are fundamentally blind to what is happening.

Our embassy in Nigeria has been chronically understaffed and in disarray, although under Ambassador John Campbell, who arrived in May, is beginning to improve. We have chronic problems in attracting and holding talent in that embassy. The working environment there is very difficult. We need to take special measures. We need to incorporate Nigeria within the pan-Sahel Initiative, which is a counterterrorism initiative begun by General Wald and the European Command.

To pursue these interests then in Nigeria, what do we need to focus on? We need to focus on rebuilding the staff strength and morale. We need to devise a much more serious counterterrorism approach that has a strong public outreach and public diplomacy focus on northern Nigeria. We need to upgrade our intelligence. We need to bring forward creative new forms of debt relief and other forms of assistance that can reward the experiments that are under way in the early economic reform campaign begun by Minister Ngozi.

Thank you very much.

[The prepared statement of Dr. Morrison follows:]

PREPARED STATEMENT OF DR. J. STEPHEN MORRISON

INTRODUCTION

Senator Hagel, Chairman of the Subcommittee, Senator Sarbanes, Ranking Member of the Subcommittee, other Members: I am grateful and honored to have the opportunity to speak here today on a subject that in recent years has swiftly risen to the top of U.S. foreign policy challenges in Africa, namely, how to conceptualize and execute a dynamic, U.S. energy strategy for the Gulf of Guinea.

The preceding speaker, David Goldwyn, is a close friend and professional colleague with whom I have collaborated in two projects in the past year that are directly relevant to the subject before us today.

Beginning in mid-2003, we co-chaired the CSIS Task Force on Rising U.S. Energy Stakes in Africa, which concluded in its March final report that a major, heightened U.S. diplomatic effort was warranted to promote greater transparency in the use of Africa's burgeoning oil wealth, especially governance in Nigeria and Angola, but also in three small states experiencing substantial growth of oil production, Chad, Equatorial Guinea and Sao Tome and Principe. As these states add 2-3 million barrels per day to world markets in the next five years, their oil earnings will skyrocket. Nigeria is estimated to earn over $110 billion between now and 2010, Angola over $43 billion. These are staggering figures by any measure. When set against the legacy of corruption and mismanagement of these and other African producing states, these figures are potentially destabilizing.

David also authored an excellent chapter, "Crafting a U.S. Energy Policy for Africa," as part of the Africa Policy Advisory Panel, an exercise authorized and funded by Congress, overseen by Secretary Powell, and for which I served as the executive secretary. Former Assistant Secretary Walter Kansteiner chaired the Panel.

Just one week ago today, we released the full Panel report here on Capitol Hill. Secretary Powell spoke at length on U.S. Africa policy. Two panel members, Senator Feingold and Representative Royce, also spoke at length of the need to think in new and innovative ways about better advancing rising U.S. national interests in Africa. Congressman Wolf, the impetus in Congress for the creation of the Panel, also spoke eloquently in the same vein. All shared an enthusiasm for the focus placed in the Panel's report on building transparency, accountability and stability in Africa's expansive oil sector.

In his testimony here today, David has laid out in considerable detail how the Gulf of Guinea figures in global security terms, why this small pool of important African producing states in the Gulf of Guinea are of rising vital significance to U.S. energy security, why their supply to U.S. markets remains at risk of disruption, for both internal governance reasons and, externally, from regional instability and emergent terrorist threats, and what the policy options are to enhance U.S. energy security. I wholeheartedly support David's analysis, and will not retrace the ground be has covered. I will instead concentrate upon providing complementary details to back two core assertions.

The first, core assertion, consistent with what we have heard thus far, is that there is indeed an urgent need for a coherert U.S. strategic energy policy to fill the gap that exists today. Only then will rising U.S. interests in the Gulf of Guinea be addressed effectively.

Such a strategy needs several key elements. It must be long-term, it must be built upon sustained partnerships with African counterparts, and must feature a two-pronged, regionally coordinated approach. It needs simultaneously to address both serious deficiencies in the *internal governance* of key African oil-producing states at the same time that it systematically addresses the shared, *external security threats* these states face.

Improved internal governance fundamentally calls for enhanced diplomatic engagement to promote transparency and accountability in the use of a producing country's wealth, including respect for human rights and democratic process, and ensuring that oil revenues are tied to sustained and equitable economic growth. Regional security fundamentally calls for heightened engagement by U.S. intelligence and military institutions, under the guidance of overall U.S. foreign policy, to strengthen maritime security and meet other threats, especially in northern Nigeria. Reconciling these two imperatives is not always easy, and requires high-level oversight and a durable compact with Congress. As a matter of U.S. policy, we are not yet at that point, though if there were sufficient will in the administration and Congress, significant early progress could be realized, I believe, in relatively short order.

Second, a special bilateral priority needs to be assigned, in any U.S. strategy, to Nigeria's central importance to the Gulf of Guinea. What transpires there in the near and medium term, with respect to both governance and security, will be decisive to the future of the Gulf. For that reason alone, I would like to spend a few minutes at the conclusion of my presentation to discuss recent developments in Nigeria and specific measures that need to be taken to make the U.S. approach to Nigeria more comprehensive, dynamic, and effective.

ELEMENTS OF A GOVERNANCE STRATEGY FOR THE GULF OF GUINEA

What I summarize briefly in this section are the major elements laid out in the CSIS report, "Promoting Transparency in the African Oil Sector: A Report of the CSIS Task Force on Rising U.S. Energy Stakes in Africa," issued in March 2004.

First, the United States should pursue sustained, high-level engagement, bilaterally and multilaterally, to promote transparency and reform in the Gulf of Guineas oil producing nations. It should explicitly enshrine this goal as a top priority of U.S. Africa policy.

This will entail devising clear and transparent benchmarks for regional behavior, complementary to the standards of the Millennium Challenge Account. The touchstone should be a public commitment to transparency in public finance, with benefits contingent on verifiable, sustained, and public disclosure of government revenues and expenditures and adoption of open public finance practices. Examples of transparency practices could include disclosure of aggregate revenues (royalties, taxes, and other fees) from extractive industries, disclosure of oil-backed loans, publication of IMF Article IV reports (which report annually a country's macroeconomic management and compliance with IMF programs), open procurement practices, transparent processes for bidding oil concessions, public disclosure of signature and other bonuses, auditing of national accounts and national oil companies, expenditure transparency in public budgeting, legislative access, and review of public finances.

Second, to pursue this goal, a Special Adviser to the President and Secretary of State for African Energy Diplomacy (S/AED), with ambassadorial rank, should be designated to lead Interagency policy.

A special adviser with ambassadorial rank would be housed at the State Department, but endowed with authority by the president and the National Security Council to lead interagency policy. The appointment, an unprecedented act of commitment in this area, would powerfully signal U.S. leadership on this issue.

The special adviser would be mandated to develop relationships with senior African leaders, coordinate political, economic, military, and governance policy for the U.S. government, interact with the G-8 process and other multilateral fora, liaise with like-minded nations, and brief the Congress on U.S. policy. The Special Adviser should chair a U.S.-Africa Energy Policy Business Advisory Council to work with U.S. agencies and industry on a coordinated and consistent basis to address transparency, governance, human rights, and democracy issues.

Third, the United States should introduce a set of reinforcing bilateral policies with special application to the Gulf of Guinea.

The United States should declare publicly its benchmarks for regional behavior, in close parallel with those benchmarks set out for the Millennium Challenge Account. Any leader who makes such a commitment would meet with the secretary of state and be eligible for regional support programs. The level of support for a nation would be calibrated to concrete irreversible actions and the level of development. The United States should continue to utilize Africa Growth and Opportunity Act (AGOA) eligibility as a means of leverage for good governance.

Regional programs that committed nations would be eligible for include:

African Energy Producer Summit. A summit would provide a platform for governance issues, and could be appended to the G-8 meeting or the annual AGOA summit. Meetings with the president of the United States in conjunction with these biannual summits should be restricted to those countries practicing transparency and good governance, and would serve to single out countries that manage their oil wealth well.

Peacekeeping and IMET Training. The United States should dramatically increase peacekeeping training and International Military Education and Training (IMET) support for nations that commit to respect human rights norms and adhere to transparency criteria.

z*Maritime Security Program.* The United States should help to establish and train an African regionally-coordinated maritime force to protect offshore oilrigs, contingent on mandatory human rights training. This force would police borders, strengthen customs enforcement, counter-narcotics efforts, and counter-terrorism. Maritime security programs would also protect offshore infrastructure from piracy or attack.

Support for Civil Society. Indigenous nongovernmental organizations in energy-rich countries should be encouraged, trained, and empowered to monitor and report on their governments' progress in implementing reform and fulfilling their public commitments to transparency in revenues and expenditures, especially within the oil sector.

Fourth, the U.S. should Integrate the World Bank and IMF into its Gulf strategy and devise new innovative collaborations.

The World Bank and IMF will play a lead role in fostering transparency in many countries by upholding standards for staff monitored programs or conditions of revenue and expenditure disclosure contained in Poverty Reduction Strategy Papers. The United States should support a common and consistent agenda of promoting oil revenue and expenditure transparency, especially where the World Bank provides financing for the oil sector. The United States and G-8 allies should also focus diplomatic support on the implementation of World Bank standards for the Chad-Cameroon pipeline.[1] There is great hope that Chad-Cameroon can be a model for public-private partnerships that can foster investment and transparency. Public confidence in such efforts will hinge on how the Chad-Cameroon project proceeds, and how the international community deals with inevitable problems that arise.

The United States should press for new multilateral programs for which committed nations would be eligible:

Debt for Transparency. The burden of debt puts pressure on public budgets, stunting development and giving politicians little space for satisfying public demands.

While the Paris Club debt rescheduling process and the IMF staff monitoring programs that precede Paris Club reschedulings are critically important, more generous U.S. appropriations and greater flexibility for debt rescheduling, reinforced by heightened U.S. leadership in multilateral reschedulings, can provide a powerful tool for promoting reform in countries such as Nigeria and Angola. Non-HIPC eligible countries, such as Nigeria, should be eligible for debt relief if they make appropriate commitments and demonstrable progress.

Electric Power for Good Governance. The United States should lead a G-8 effort to fund a fresh, conditional commitment to financing national electrification, with appropriate focus on restructuring and regulatory capacity-building, including revenue management to help recoup investments and operating costs, as well as rural electrification and distributed generation, based on new contributions by World Bank shareholders, in exchange for transparency and development commitments by the recipient nation.

Capacity-Building Trust Fund. Most African nations lack the human capital to prepare, audit, and monitor public finance, and to manage their petroleum reserves. The United States and other nations must support a long-term capacity-building program to train national officials in these essential skills, and link U.S. and African academic institutions to provide education on an ongoing basis. The program must be based in Africa and tailored to African needs.

Conditional Trade Finance. Energy development is capital intensive, and trade financing through the Export-Import Bank, the Trade and Development Agency, and international equivalents plays a critical role. To obtain financing, countries would need to demonstrate a commitment to using the proceeds of the resources for national development and to agree to transparent monitoring and auditing of project revenues to obtain finance.

Capital Market Access. G-8 nations can ensure that all national or correspondent banks that have relationships with G-8 banks disclose the beneficial owners of those accounts to prevent government officials from using western banks to hide misappropriated funds.

A GULF OF GUINEA MARITIME SECURITY STRATEGY

A glaring vulnerability in the Gulf of Guinea is the lack of effective control over its maritime and coastal environment. This has encouraged levels of piracy unrivalled in Africa (and in global terms, second only to the Malacca Straits in Southeast Asia.) It invites illicit trafficking in weapons and drugs, illegal immigration, and terror attacks against an energy infrastructure that was constructed with no serious sabotage threat in mind.

It is very much in U.S. interests to become more directly engaged in strengthening the Gulfs maritime security, given the projected growth of U.S. oil operations there. Short-term benefits can be quickly realized, in curbing piracy and the bunkering of oil, improving the oil production environment, encouraging greater regional integration, deterring terror and sabotage, and protecting American citizens and property. The cost of such programs is not prohibitive, particularly if the effort is effectively multilateralized and costs shared with host governments, European allies, and oil corporations. Major gains can be achieved with an annual U.S. government investment of $10-$20 million. A number of Gulf coastal countries have sig-

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[1] Chad is now emerging as the critical test case of whether African oil-producing nations can use their oil windfalls for development purposes and not sink into the typical pattern of corruption and autocracy. The Chad-Cameroon pipeline project is the largest development project in Africa today. It has spawned a unique multi-stakeholder experiment in transparency that involves civil society, governments, the World Bank and oil firms.

naled their strong interest in building their maritime security capacities in collaboration with the United States, most notably Sao Tome and Principe, Nigeria, and Equatorial Guinea.

What are the other requisites for success?

First is the imperative to act with speed, realism, and a long-term commitment. Speed is essential to take advantage of the current receptive environment and to avoid attempting to engage host governments *after* the steep upsurge of oil earnings in a few years time. Speed is also essential to demonstrate rapid benefits and to minimize the distractions that may grow as China, India, and other energy-hungry powers enlarge their presence in the region. Realism will require the United States to recognize that it will be starting its programs from scratch, in an environment that has very weak infrastructure and technical expertise. Success will only come if the U.S. strategy calls for an investment of five years, at a minimum.

Second is the imperative to work hard to encourage the formation of a coherent African regional body, comprising Sao Tome and Principe, Nigeria, Cameroon, Gabon, Congo-Brazzaville and Angola, with which the United States and others can partner. Early discussions are now under way around the formation of a Gulf of Guinea Commission. These should be intensified.

Third is the imperative, internal within the U.S. government, that an interagency consensus and operational plan be devised for funding and implementing a Gulf maritime initiative. It will be essential to call upon high-level diplomatic support across a range of states, to bring in both military and civilian agencies, and to monitor progress closely and have a process in place that can make adjustments swiftly and effectively.

PUTTING A SPECIAL FOCUS ON NIGERIA

Despite major U.S. oil investments in Nigeria and enduring U.S. interests in counterterrorism, democracy, transparency in the use of oil wealth, and regional stability, the United States at present is ill-equipped to shape events in Nigeria. Quick action is needed to correct that reality.

Nigeria is a challenging mix. It remains dangerously on the edge of disorder, emerging from years of misrule. At the same time, Nigeria's leadership is advancing experimental, bold reforms in the management of Nigeria's oil wealth, and seeking to reconcile high expectations with weak, decayed institutions and grave reputational problems globally. Given Nigeria's sway in the region, and the stark risks and alluring opportunities it presents, Nigeria should be the top country focus of any U.S. strategy that aims to advance U.S. national interests in the Gulf of Guinea.

Yet to achieve that will require overcoming constraints in our own approach to Nigeria.

The high-level U.S.-Nigeria consultative mechanism created late in the Clinton Administration has lapsed. U.S.-Nigeria military-military relations have been frozen by Congress since the Benue massacre of 2002. The U.S. has no diplomatic presence in the north; the U.S. embassy in Nigeria has been under-staffed and in disarray for several years, though it has begun to improve somewhat with the arrival of Ambassador John Campbell in May. Special focused measures will be needed to attract talent to bring the embassy up to grade. The U.S. Pan Sahel Initiative (focused on Mali, Mauritania, Niger, Chad; now also to encompass Morocco and Tunisia) does not include northern Nigeria, even though that is arguably the zone of greatest potential terrorist threat in West Africa.

To pursue U.S. interests in Nigeria, U.S. policymakers will need to get far more serious about (i) rebuilding the staff strength and morale of the U.S. embassy; (ii) devising a serious counter-terrorism approach with a strong public diplomacy component to northern Nigeria; (iii) improving our grasp of Nigerian President Obasanjo's calculations, as well as those of the military, and political forces in northern Nigeria; and (iv) bringing forward debt relief and other forms of assistance to reward concrete action by Nigeria's impressive early economic reform campaign.

We propose that the State Department should re-establish a high-level bilateral consultative mechanism to work in conjunction with the previously-mentioned special adviser for African energy diplomacy to encourage and assist the Nigerian government in its reform efforts. The United States should send the Secretary of the Treasury to Nigeria to develop a bilateral debt relief program with Nigeria's new finance minister to bolster her leadership. Finally, the United States should develop and offer G-8 adoption of an oil tagging system, analogous to the Kimberley Process for identifying conflict diamonds, to curb the growing problem of oil theft and reduce corruption of government officials involved in oil sales, shipping, and customs.

U.S. policy has up to now been predominantly oriented around the consolidation of democratic governance, HIV/AIDS, and collaboration with Nigeria and other West African states in regional peacekeeping, most recently in Liberia. I am not arguing that these priorities should be downgraded. Rather, I am arguing that the U.S. should elevate the seriousness and level of effort it commits to Nigeria overall, and put a special new focus on strengthening diplomatic, intelligence, and counter-terrorism capacities and supporting economic reforms through creative multilateral debt relief measures.

Dramatic recent promise

In the past year, President Obasanjo's economic reform team, led by Finance Minister Ngozi Okonjo-Iweala, has advanced an ambitious homegrown transparency initiative in the management of Nigeria's oil wealth, involving a February workshop with civil society and business, the publication for the first time of allocations from the central government to the states, and close cooperation with the World Bank and IMF in auditing the oil sector and organizing internal agency-by-agency data on income and expenditures. For the first time, the government has issued a realistic federal budget, fiscally linked to a projected oil price of $25 per barrel, and adhered to the discipline of applying surpluses to a special account. International reserves have risen to $10 billion, and inflation has dropped. A key outstanding question is whether the Nigerian National Petroleum Corporation (NNPC) will divulge its data and whether ingrained resistance to transparency within major agencies can be overcome. For U.S. policy makers, a key question is whether and how to provide significant debt relief, to reward progress in a timely way, when the sustainability of these reforms remains uncertain and when Nigeria does not yet have a formal agreement with the IMF.

Continued instability

On May 18, Nigerian President Obasanjo declared a state of emergency in the central state of Plateau, suspended its elected officials, and put a retired general in charge as sole administrator. This followed months of Muslim-Christian violence there, and also in the northern Muslim state of Kano. Human rights activists have renewed calls for a sovereign rational conference to create a new national consensus and constitutional basis for governing Nigeria, a proposal that has been raised repeatedly over the last decade.

What is happening in Plateau State is not a new development, but rather a continuation of past patterns. Indeed, since Nigeria returned to democratic rule in 1999, upwards of 10,000 have died in sectarian violence. While these conflicts have taken on religious overtones, the original cause in many instances is not religious, but economic aid political, aggravated by social dislocation, poverty and marginalization, and high unemployment, particularly among the region's large youth population. For example, in Plateau State, there have been longstanding clashes over land and resources between established Christian residents and Muslim migrants. Recent violence was instigated by Christian youths against Muslims and touched off religious reprisals in neighboring Kano.

The state of emergency and return of military rule in Plateau raises the specter of renewed violent abuses of civilians at the hands of the military and the possibility that Nigeria's democratic governance has entered a phase of heightened strain and uncertainty. In April, there were reports of coup plots within the military, which may suggest mounting dissatisfaction within Nigeria's military over Obasanjo's handling of internal unrest, along with corruption.

The terror threat

There are strong suspicions that northern Nigeria may become an attractive base for Nigerian and outside radical Islamists, potentially serving as a base for anti-American terrorist activities. The U.S. government unfortunately remains woefully ignorant of what is actually happening in northern Nigeria, and debate persists among experts as to how much of a threat exists there and whether Islamist radicalism will translate into anti-American violence. Armed Islamist militias have been on the rise in the north, just as armed non-religious militias have been on the rise in the central and southern states. Instability in the central Plateau state could strengthen the hand of radical Islamist interests in the north, and might invite renewed violence in the chronically unstable Niger Delta in the south.

Nigeria's regional peace-keeping role

Despite internal uncertainties, Nigeria has also proven to be an important partner in restoring stability to the West African region and has won praise from Pentagon officials as "a force for stability that has earned a reputation as one of the most capable armed forces in Africa." The country is also beginning now to more systematically tackle HIV/AIDS within its armed forces.

The Nigerian military's performance in Liberia in 2003, as the lead element of the intervention force there, was much improved over earlier interventions in Sierra Leone and Liberia, attributed in no small part to U.S. military training. The United States is constrained from providing support to militaries with questionable human rights records, but Nigeria is a case in point that U.S. training and support can improve discipline and respect for human rights.

Any analysis of U.S. stakes in the Gulf of Guinea must address the realities and vulnerabilities of Nigeria, the region's—and indeed the continent's—largest state. And in turn, an effective strategy toward Nigeria cannot focus solely on the security of the oil fields in the south. Rather, the United States will need to craft a security strategy for the entire country that deals with multiple threats—in the north, specifically with opportunistic extremist Islamic politics, and across the country where the movement of men, money, arms, and drugs through illicit networks facilitate terrorism and instability.

Senator HAGEL. Dr. Morrison, thank you. Again, to each of you, we appreciate you being here this afternoon.

Let me ask you each. You sat through both the Deputy Assistant Secretaries' presentations and listened to the exchange that we had in the questions and answers. They each addressed U.S. policy, specific areas of trade, and we talked about the Millennium Challenge Account. Their assessment was I thought more on the positive side of developments in this region that we are talking about this afternoon.

Each of your assessments are not near as rosy as what I heard from the administration. Now, we are somewhat realistic up here about those kinds of things and normally administrations do not come up and say the world is going to hell and we have got real problems. But nonetheless, there seems to be, unless I just did not listen carefully enough, some disconnect between what the two of you have said and what I heard these two Deputy Assistant Secretaries say.

Let us start with the programs that I have just mentioned, AGOA, Millennium Challenge Account, areas that you all focused on. Both Mr. Brodman and Mr. Simons did not dispute the general objectives in these areas, but I think presented a little different way and hue as to the color of what was going on.

I would like to go a little deeper down in these areas, taking those two specific programs and policy. Do we have a policy in your opinion, a foreign policy, an energy policy, that is specifically targeted to this area? And if that policy is there or if you think it is there, what is it? And you could take that anywhere you would like. We can start with you, Mr. Goldwyn.

Mr. GOLDWYN. Thank you, Mr. Chairman.

We do not have a policy targeted at the region. We have policies—the Millennium Challenge Account is geared toward setting benchmarks for certain countries which are eligible for that program and if they become, if they do well enough, then they get some aid. It is a very good program. It is not targeted to the Gulf of Guinea. Lots of the countries in the Gulf of Guinea will not be eligible for it.

AGOA is very important for countries that have non-oil sectors, particularly manufacturing, to be able to trade and have access to our market. But most of the countries in the Gulf of Guinea need to learn to be able to use AGOA, but they are not there now. They are selling oil, the market is open, and they have got it.

A strategy to me is something that identifies the problem, deploys a set of measures to fix it, and then takes you to a different place than you are right now. None of what we have in place right now adds up to a strategy. I agree with John, who used to work for me, and with Paul Simons: Relations between the State Department and the Energy Department are great and there are lots of meetings. But it does not amount to a strategy.

Nigeria is having these chronic problems because it has had years of corruption, deep poverty, unresolved conflict, underdevelopment, and governments which are pretty much incapable or in the past unwilling to change that. So how do you change that? Well, you have got reformers in Nigeria. You have to make them succeed. You have to make sure they live up to certain kinds of behavior, and they have to be able to deliver, if they are going to actually take the people who used to be on the take, risk going to jail, and say we are not going to steal any more.

What is in it for them? For Nigeria, that is debt relief. Obasanja is going to deliver and he is going to tell his people, you are off the till, you are not on the take any more, we are going to clean this thing up. Ngozi has got the way to go. He has got to deliver something. A little bit of aid does not make any difference in Nigeria. So if we were talking seriously we would be talking about debt relief and we would tell them what bar to clear.

A country like Angola, what is their problem? They have ended their civil war. They have all this, the resettlement, repatriation, the years of corruption, that government. What does it take to get the President of Angola or the Angola Government to stop doing what they used to do with the oil money, come clean, risk going to jail, and suddenly change? Well, I think it is donor relief. There the strategy is we need to leverage the huge amount of money that will come from the international financial system and say: If you want that money, this is what we want you to do in terms of transparency.

I would say overall, if we had a strategy, it ought to say we need to have incentives and we ought to have pressures that will make these governments come clean about what money is coming in, but also where they are spending the money, and there will be rewards for doing that. But the issue is not on the top of the agenda for the United States with either of those countries.

It is not that Secretary Powell does not care, because he does. But when we think about Nigeria we think about Liberia, we think about HIV-AIDS, we think about counterterrorism. When we think about Angola, we think about ending the war and they are on the Security Council and we are thinking about other issues. We do not think about Equatorial Guinea for the most part. We do not think about Cameroon. We do not think about Congo Brazzaville. Just there are too many problems in the world; they do not make it on the list.

So I would say add all that together and, no, we do not have a strategy and the bilateral policies that we have with these countries do not amount to anything that will change their behavior, make them more transparent, and therefore make them more stable and reduce our risk of having an oil supply disruption.

Senator HAGEL. Dr. Morrison.

Dr. MORRISON. I agree with what David has said. I would add a few other angles to this argument. Let us be clear. Places like Nigeria and Angola are very, very tough places, and people who have worked those issues for a very long time have understandably grown to be very cautious, skeptical, wary, hesitant to think that this can be turned around in the near term.

If you go back and look at the energy policy that was issued in the first year of this Bush administration and you look at the Africa sections, I think you will see that edginess contained in there, the hesitation about the exceptionalism of the corruption and toughness in these environments. That is one point.

The second point, our Africa policy—and this is not just true for this administration, but Africa policy in general tends to focus on trying to do one and maybe two things really, really well, and that is about the limit of capacity. In this administration the Sudan policy has dominated, much to its credit in terms of seeking a negotiated peace settlement and now seeking to deal with the crisis in Darfur.

It has not left a lot of space for new major initiatives of the kind we are talking about here today, particularly when you focus on the general kind of attitudes that have accumulated around these cases over the years.

Now, what has changed? First of all, I think, to the administration's credit, I think there is a lot of excitement today at high levels and at mid levels around what is happening in Nigeria, and it is reflective of some of the high-level consultations that have taken place in the last 6 months, and the administration deserves to be commended for that, just as the President deserves to be commended for going to Nigeria during his trip last July, after a period in which there had been a sharp dropoff of high-level contact in Nigeria. This is a reflection of the seriousness of the effort of reform under way in Nigeria.

What else has changed that gives us an ability to have this kind of conversation? You have got reformers under way in Angola and we should lose sight of the fact. They are not as far along as Nigeria, but there is a serious team. The IMF is taking another new look at Angola. There is a mission out there today.

Second is the emergence of the counterterrorism agenda post-9–11 and the sudden awareness of the threat that truly does exist concentrated in and around Nigeria, in the illicit diamond-trafficking and money-laundering networks in West Africa, and the other criminal networks that we have talked about.

Third is the need for energy security on the global level in such a fragile environment. This zone, the Gulf of Guinea, is adding 2 to 3 million barrels of oil onto world markets in the next 5 years, and we are going to be at the table as investors and we are going to be at the table as consumers in a very significant way.

Those are the factors that argue today for bringing this into focus. But I think that administrations are slow to respond. Bureaucracies are slow to respond. There is some evidence, as I said, with respect to the enthusiasm and interest levels of the Nigerian reformers. You can see the turn-around. But as a strategic turn-around, in looking at the Gulf of Guinea and saying, my gosh, we need a strategy that is going to be concentrated and focused on these six or seven countries with these elements in terms of our security engagement, in terms of our diplomatic governance engagement, we are not there yet.

Senator HAGEL. Thank you.

You mentioned the IMF and I know in your prepared remarks you go into some detail, Dr. Morrison, with the World Bank and IMF. I would be interested in hearing each of you develop that a little more and areas where the IMF—and you noted the IMF has got a team in, where, Angola today or tomorrow. Both of those institutions, each in its own way is very important to this part of the world. I would like to have each of you address it as to where they can be playing more of a role, how does that role integrate into overall U.S. policy, and any other comments you would like to make regarding those two institutions in this area of the world.

Mr. Goldwyn.

Mr. GOLDWYN. Thank you, Mr. Chairman.

First, I think the IMF and the World Bank have an agenda in Africa which is, when they do poverty reduction, to try and incorporate transparency as part of it. That is pretty much new to their doctrine, but they have got it. Part of our foreign policy ought to be trying to tell countries when we talk to them we think that agenda is important too, that living up to the IMF standards or the World Bank standards is something that is important to our relationship. I do not think we do that in a consolidated way. I never heard it when I was in government. So that is I would say step one, integrate it in our policy.

Step two is we have got to realize who has got the leverage. With Angola, companies are going to go there. U.S. policy is not going to make a difference. Aid, we are not going to be able to give them enough money, you know, especially when—Steve mentioned in passing there was a study CSIS commissioned about rising oil revenues in the gulf and it shows that in the next, between now and 2010 Nigeria is going to get $110 billion in government take, Angola is going to get about $40 billion in government take in addition. A lot of cash. So a little bit of aid is not going to make a difference.

But what these countries want is debt relief. The IMF has said to them: You want debt relief, here is what you have got to do. And donor relief for Angola, rather than Nigeria, is also very important. So we need to lead the team, not just get on the team, of saying the standards for donor relief are going to be these transparency issues and backstop the IMF so that they are not out there competing.

The other thing we need to do is use our bilateral diplomacy to support the agenda. That means in the case of Angola again, it is talking to other countries to make sure they do not cut a separate deal with Angola to get an oil field and forgive them whatever trespasses they have, but everybody stays on the donor team.

So I think those are important priorities.

Senator HAGEL. Thank you.

Dr. Morrison.

Dr. MORRISON. We lay out several proposals: a debt for transparency initiative, an electric power for good governance initiative, capacity-building trust fund. All of these are ones which will only succeed if they are truly multilateral and have the backing of the international financial institutions.

I want to also draw attention to a recent development. In Angola, the IMF has had on and off dialog with Angola around the need for greater transparency in its oil sector. We are in a period now of renewed hope around that subject. When the Chinese come in and offer special concessionary arrangements of offering a $2 billion cash facility leveraged against oil deliveries, that significantly weakens the ability of our bilateral dialog, the IMF dialog, and those of others, and brings forward again the degree to which this is really a global problem that requires a global diplomacy, and it reaches beyond simply the scope of what the IMF is able to do and to leverage multilaterally.

The Chinese and the Indians are large and ever-larger players on this field and it has not really entered our consciousness, much less our diplomatic strategy around these problems.

Senator HAGEL. Thank you.

You heard Mr. Simons note the compact agreement that was signed at the G–8 conference at Sea Island. I would be interested in getting each of your thoughts about what the expectations are for that agreement, what the potential is, how can that work into addressing some of the problems, questions that you each posed this afternoon. Thank you.

Mr. Goldwyn.

Mr. GOLDWYN. Well, I think the compact agreements are right now more of a concept than they are a program. I think the concept is very good, which is work with a country, help them train their people how to do public finance, train them how to supervise auditors, learn to do transparency. I have not been able to detect the program funding for these compacts or the staff that is dedicated to implementing these compacts. So I am not sure how much there is there.

But I think it is a good start. It is the U.S. complement to Prime Minister Blair's extractive ministries transparency initiative, which is another pledge by governments to say, you do the right thing, we will fund your ability to do this.

The reason I am a little bit skeptical is that it is pretty expensive. If we were going to get the Nigerians to do an audit of their oil sector, if they are hiring, you know, PriceWaterhouseCoopers or somebody like that, we are talking millions of dollars and we are talking about serious training programs. I think the compact is something that is good and ought to be expanded, but I would urge some oversight on the substance behind it.

Senator HAGEL. Thank you.

Dr. Morrison.

Dr. MORRISON. I would echo the sort of mixed sense that, yes, this is progress, but of a limited sort. It could have been done more aggressively with some more significant backing, but let us be looking forward. Next year Britain will be hosting the G–8 summit. It has arranged for the creation of a high-level Africa commission fully 18 months prior to that, which is planning to arrive with some significant recommendations in this very area that we are talking about here.

Britain announced this week some rather historic projected rises in foreign aid that will support this strategy. As a matter of U.S. policy, we should be looking downstream to next June and planning in the administration's discussions with Congress and with others to be coming in fully in support of these, because this is a major opportunity to push the agenda for transparency and accountability.

Thank you.

Senator HAGEL. Thank you.

Gentlemen, I am going to ask you each one more question and then I have to go to a meeting with Dr. Rice. It is regarding natural gas in this part of the world that we are discussing today. We really did not talk much about that. I do not think it was referenced more than two or three times in the testimony of our witnesses prior to you. We have spoken primarily about oil.

I would be interested in each of your assessments on the natural gas side of this. Obviously, the investment security, stability dynamics in the region stay the same regardless of what the commodity is, but the development, the pace of that development, what is really there, what we know is there, related to natural gas. Mr. Goldwyn.

Mr. GOLDWYN. Yes, Mr. Chairman. The gas potential of the gulf is enormous. Nigeria has tremendous amounts of gas. ChevronTexaco has large gas infrastructure there. They are a huge potential for LNG. Angola, increasingly a gas power. Equatorial Guinea, as John Brodman mentioned, has Marathon's methanol plant already in place.

They used to cap those wells because they did not think the gas was worth anything, and now they are going to go back there and find out where the caps were and produce it. So it has tremendous potential and tremendous potential to convert to LNG and ship it here if the United States has the ability to receive the LNG and supply our market. So I think it is a huge potential resource.

The other key driver for natural gas production in West Africa is the reduction of gas flaring. It is the legal regimes in Nigeria and Angola in particular which will fine companies if they do not cease gas flaring by a date certain that have led companies, I would say ChevronTexaco's West Africa gas pipeline in particular, to find ways to monetize this gas, because they are going to pay for it either way. That has been a very wise policy, very positive for the environment, and will be a continuing push factor in West Africa's natural gas production.

Senator HAGEL. Thank you.

Dr. Morrison.

Dr. MORRISON. On the flaring aspect, it is important to remember that Nigeria accounts for about 25 percent of the world's flaring. It is visible from outer space. It is remarkable. So in terms of immediate environmental benefits as well as the economic benefits of capturing this asset and converting it into a useable commodity, there is a big turnaround benefit there.

There is a big potential benefit in terms of power generation within a region that is woefully inadequate in terms of its own power generation capacities. The biggest issue, not just for capturing natural gas within Africa but also in the former Soviet Union and elsewhere where there are huge deposits, is finding the guaranteed accessible market consumers that will be sustainable over a long enough period of time and reliable that you can invest in that infrastructure and transport infrastructure to move it to the marketplace.

We know we are not there yet. We know that this is a highly desirable commodity for power and heating in the United States. But we also know how terribly difficult it is to find new landing sites on our two coasts. There are roughly three dozen proposals. They are very controversial, complicated, and difficult proposals.

Hopefully we will work our way through this phase in the next couple of years. I am no expert on this. I just read the accounts of all the different local controversies. But if we can get to the point where the market becomes more accessible on our shores, I think you can reliably predict you will see a significant uptick in the investments in this.

Right now, outfits like ChevronTexaco which have made a big bid on natural gas have lots of natural gas, but are having a hard time landing it at the markets.

Thank you.

Senator HAGEL. Thank you. Your note about the port facilities to receive this is a critical, critical issue. As you mentioned, we have some legislation here and in the House as well, that we are not going to get to, unfortunately, this year. We are not getting really to anything this year. But that has to be addressed because if we cannot receive it it does not make any difference what happens in the Gulf of Guinea.

Gentlemen, you have, as usual, been very helpful and we appreciate your wise counsel and your good effort and the organizations you represent. Thank you very much.

[Whereupon, at 2:55 p.m., the subcommittee adjourned, to reconvene subject to the call of the Chair.]

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